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# INDUSTRY AND THE STATE



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# INDUSTRY & THE STATE

A CONSERVATIVE VIEW

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## PREFACE

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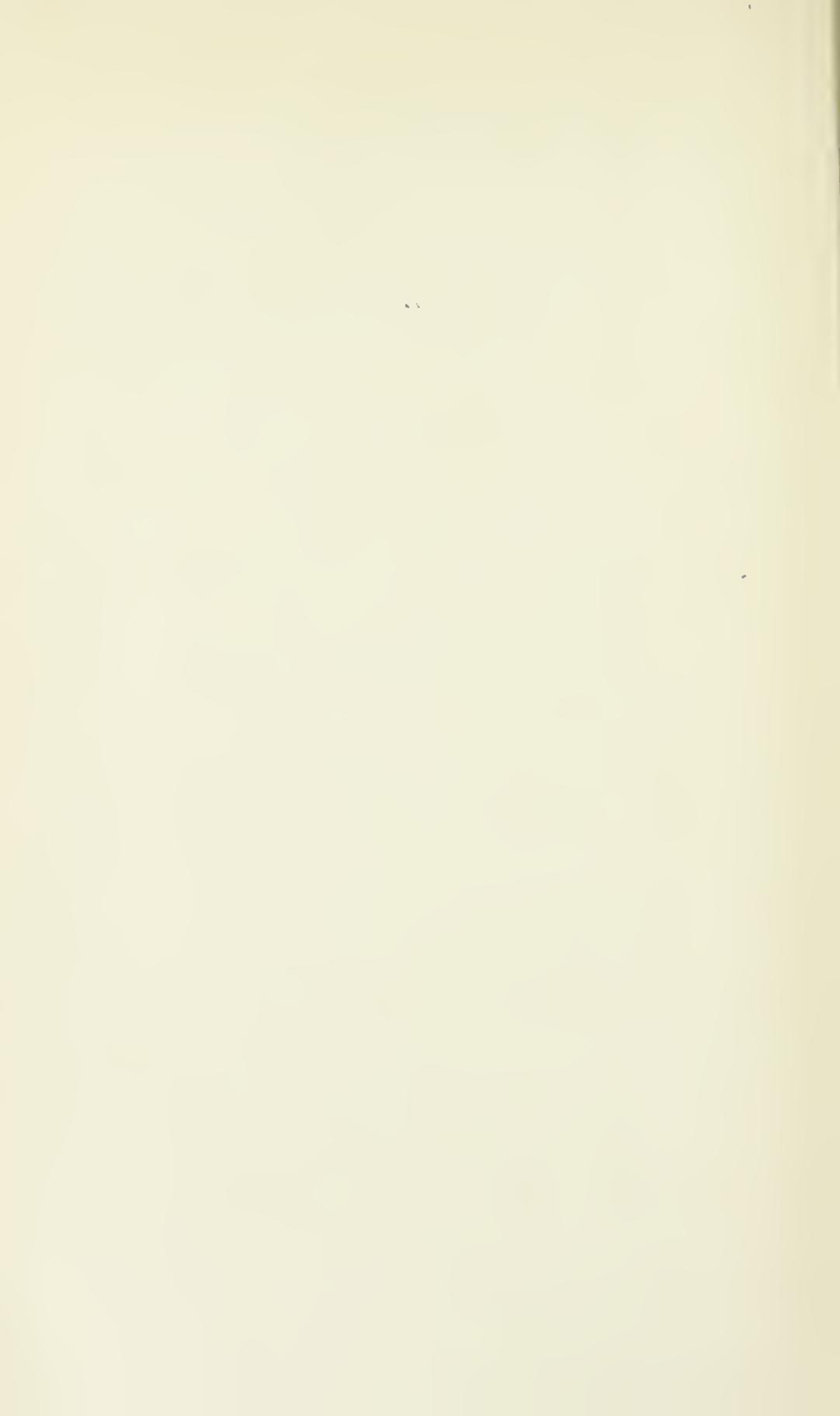
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## GENERAL INTRODUCTION



## GENERAL INTRODUCTION

BEFORE proceeding to the primary function of an introduction, that of explaining what a book is, it may be well in this ease to begin by explaining what it is not; for we shall no doubt so fully deserve eastigation for our involuntary sins of commission that in common prudence we must answer beforehand the inevitable criticisms of our deliberate omissions. We make no pretence of attempting an exhaustive survey of Conservative principles or policy, nor have we tried to forestall any possible party programme for a future eleetion. The subject with which we deal is Conservatism solely in its relation to industrial development, and even then our treatment is on the narrowest lines. For, after all, what point of political belief or what detail of political action is without its effect on industry, and therefore deserving of omission from a really comprchensivc survey ? Foreign policy or leasehold reform, Imperial defence or soeial insurance,

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the League of Nations or adult education, none should be omitted, and all are.

For these omissions we have both a reason and an excuse. The reason, apart from any question of competence to deal with such varied subjects, is the mechanical difficulty of space. Whatever the defects from which the book may suffer, it is at least entitled to the same plea which was advanced on behalf of the domestic's legendary production: it is in truth 'a very little one'. But large questions such as are detailed above admit of only two methods of treatment, the 'sloganic' or the exhaustive. It is possible, for instance, to say summarily of a foreign policy that its object is peace with honour, or else to deal in detail with Locarno, China, the League of Nations, the Hague Court, 'Clear out the Reds', and our attitude towards the Nicaraguan Revolution. One can say of the Social services that their aim must be to create the maximum standard of life for the people at the minimum cost to the national finance and the individual independence, or one can deal *seriatim* and at length with the component services. In neither case is there a half-way house, and we should be left, but for our decision, with alternatives equally unsuitable for our purpose.

The excuse is that, while industry is and must be affected by these problems, it is interested more in the results than the methods. All that matters is that our foreign policy should preserve peaceful and friendly relations with the rest of the world, and that our social policy should secure the intellectual and physical well-being of our citizens at a reasonable cost : how these desirable ends are to be attained does not come within the scope of a strictly industrial policy.

The second explanation, which we should make, is that we have no intention of ‘ laying down the law ’ or of teaching our industrial grandmothers to suck their managerial eggs. Even if such were our wish, we could pretend to no authority, we could claim no industrial experience, no special training or knowledge, which would lend any sanction to laws so laid down. We, however, in common with every thinking man and woman, have been forced by the events of the last five years, beginning with the collapse of the post-war boom and culminating in the general strike and the coal stoppage, seriously to take stock of the national prospects. Our stocktaking has proceeded along no strikingly original lines ; we have no new panacea to produce ; even our banalities may be ill-founded ;

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but if our published mistakes only lead to public and authoritative refutation, if only the desire to castigate will entice a champion of individualism to break the conspiracy of silence which envelops the protagonists of that much-abused system, if we can only learn that, foolish though our suggestions may be, others better qualified to preach have in their mind for future generations some industrial organisation not entirely constituted on Victorian precedents, then our impudent labours will not have been entirely wasted.

That the Conservative Party stands in need of some definite industrial policy, even if it is to be one of complete ‘laissez-faire’, cannot be disputed, for the present outlook can only be described as chaotic. The spectacle of the stout Conservative simultaneously laying on for the Tusculum of industrial non-intervention and the Rome of fiscal interference is not unknown, while the Government itself, by making the tentative suggestion of compulsory arbitral tribunals—a revolutionary change in our industrial organisation—not as a considered step in a well-defined policy but as an impromptu method of settling a particular dispute, has reinforced the demand for a more exact knowledge of our party’s destination. What, then, is

it to be? Before proceeding to any discussion of detailed possibilities it is as well to consult the oracle of 'Conservative principles' and see what guidance they can give or what limits they may set. It is not an easy task, for it entails a definition of these principles. What are they? Political principles have a habit of assuming the form either of vague generalities, which should be common to all parties sincerely striving for the welfare of the country, or of particular policies, too rigid and ephemeral to fulfil the function of 'principles'. If they fall into the former category they are obviously useless as an aid to the construction of a party policy; if into the latter they are positively dangerous in their restrictive effect.

In attempting to analyse the principles of Conservatism, we must at least avoid the error of too close an approach to precision or to dogma. The historical continuity of any party appears to the modern reader to be of the most slender description; there is no reason to suppose that the chain will be stronger in the future. New conditions arise, civilisation advances, the wild dreams of one generation become the commonplaces of the next, the cherished theories of to-day are the exploded futilities of to-morrow. Let us beware of giving hostages to the future, of

announcing with fatal decisiveness that this or that measure is an eternal principle of Conservatism, for new conditions may arise, the whole face of politics may alter, and we may be left a moribund party, bound to dead aims and forgotten theories. Political aims and political controversy rarely survive the generation which give them birth: all that is lasting is the intellectual approach and the emotional appeal, the way in which each new problem is envisaged, and the feeling which each new happening evokes.

It is the possible reaction of Conservative thought and feeling, particularly to the industrial problems of the moment, which we have to consider now. Historical research is not of much avail. We like to speak on a political platform proudly but vaguely of the great traditions of our party, while the history of that party has been the subject of many books, in which various dates have been assigned to its commencement: Bolingbroke or Pitt, the Tamworth manifesto or the Manchester speech. To the ordinary reader, intent on Acts of Parliament and legislative attempts, it seems hardly possible to assign an earlier date than yesterday. What have we in these days of religious equality (and indifference) to do with the toleration of the Whig or the

oppression of the Tory in the days of the Revolution ? Hanoverians or Jacobites, King's friends or people's men, prerogative or Parliament, what are these to us who live under a monarchy rigorously ruled by precedents and shorn of political power ? Universal suffrage, largely existing, wholly promised, renders us indifferent to the frenzied controversy of Reform, while an Irish Free State not noticeably more hostile than other places takes the fire out of the Home Ruler's enthusiasm, the sting out of the Unionist's opposition.

One obvious thread runs through the tangled skein of Tory, Conservative, and Unionist Party : its intimate connection with the country. The most perfunctory inquiry discloses this significant fact ; it may be that the most careful research has nothing more to find. The Tory Party has been in essence the country party, drawing its strength from the squire and the yeoman in the days when they were the sole mouthpiece of rural opinion, hardly relaxing its grip when the agricultural labourer also obtained his vote. It is, of course, true that the Whigs had as their leaders men with country connections, for the great land-owners provided the officers for Whig and Tory alike ; but the support they had to woo and the

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hostility they had to fear were in the towns. Thus their political bias was perforce urban, while their Tory compeers, undeterred by the dictates of expediency, could give full rein to their rural affections. The gulf between the two, hardly noticeable at first, widened and deepened as increasing industrialism more and more emphasised the division between town and country; and from what was at first a purely material distinction, there grew up during the course of last century two contrasting political philosophies, based respectively on town and country life. To its connection with the country, with rural life and rural organisation, may perhaps be traced the fundamental aspects of Conservative thought, which—as slogans are in the fashion—we will describe by a slogan—‘Continuity and Independence’.

Like all slogans, this phrase is entirely meaningless itself; but by it we attempt to describe, first, that attitude of mind which could more correctly be called conservative than Conservative; and secondly, the peculiar view which Conservatism takes of the fundamental requirements of independence and which distinguishes ‘independence’ as a Conservative policy from the rôle it must necessarily play in the programmes of other political parties.

The Conservative point of view may be defined as being made up of four ingredients : symbolism, empiricism, continuity, and realism. Although symbolism would enter with great emphasis into any discussion of Conservatism in relation to the monarchy, to the Empire, or to the political institutions of the country, it has no particular effect on any possible industrial policy and with it therefore we are not here concerned, but the three other ingredients must play an important part in shaping our thoughts and do require some further elaboration.

We have, as a nation, a particular predilection for inductive as opposed to deductive reasoning, the practical 'try-out' as opposed to the system elaborated in the study. Our whole constitutional history demonstrates this, and to it we owe the fact that we are spared either a written constitution or a common law code. The fact that we always have responded to necessary changes in our political or social organisation has confirmed us in the view that the imposition of a theoretical system is both wasteful of the evolutionary possibilities of existing institutions and a positive bar to further progress. This belief leads us at once to recognise the necessity for continuity, for using fully existing materials in

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any scheme of further building. Nothing in our national life is, we believe, so thoroughly bad that some means cannot be found of using it for a further advance and thus avoiding the dangerous interregnum between total demolition and the completion of reconstruction. Finally, we rely on reality; we take the world as we find it to-day and not as we think it ought to be, not as we hope it will be in time to come, believing that only thus is it possible for each succeeding generation to leave it, in fact, a little better. It is an obstinate blindness to reality and a pathetic faith that it is possible to make human nature approximate to their ideal simply by wishing, and thus to dispense with the slow and painful process of evolution, which waste the noble enthusiasm and generous sympathy of so many Socialists to-day.

Our attitude towards the independence of the individual is distinguished from that of the other parties by the importance we assign to the individual ownership of property. Political liberty, the goal of the Liberal, is of course one essential; the improvement of the industrial status of the worker, the chief aim of the Socialist, is another; but we believe that the 'slave mentality' cannot wholly be exorcised without the

feeling of power and of responsibility which comes from the ownership of property. This is not the place, nor are we the people, for an exhaustive discussion of the influence of ownership on individuality, although it is a task well worth undertaking, but that the influence does exist every reader will agree from his own personal experience; and certainly the belief in its existence has coloured and does still colour all Conservative legislation.

It is therefore bearing in mind the necessity of empirical evolution, of unbroken continuity, of an acknowledgement of existing conditions and the problems they create, and finally of a 'property-owning democracy',<sup>1</sup> that we approach the discussion of an industrial policy.

In the field of industrial polities to-day there are two powerful, indeed overpowering, schools of thought advocating doctrines diametrically opposed to one another, and advocating them with such vehemence that the audience is apt to forget the comparatively unexplored ground which lies between. Both these doctrines, that of Marxian Socialism and that of uncontrolled Individualism, can, we believe, be immediately

<sup>1</sup> This phrase, which has recently become current, was first used, we believe, by Mr. Noel Skelton, M.P., in his pamphlet, "Constructive Conservatism", 1924.

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rejected by the Conservative Party, as being at variance with modern economic tendencies and as irretrievably conflicting with the principles we have enunciated above. Marxian Socialism, as an industrial and economic contribution, has to be extracted like a reluctant whelk from its class-conscious shell. With that outer covering the industrial inquirer can have no concern, for no pretence is made that class war has any basis but resentment or any object but revenge. To no one can it be more distasteful than to the earnest Socialist of the Fabian type, dismayed at the prospect of the State acquiring, not a running concern, with the whole impetus of past successes behind it, but an industry deliberately reduced to ruin and chaos. It is only with Socialism as an honest attempt to increase the efficiency of industry, and incidentally to alter the allocation of the profits resulting from that increased efficiency, that we are here concerned. What actually is the Socialism envisaged by the present Socialist Party is not easy to say. Are they committed to Socialism of the heavy Germanic type with the whole industrial organisation of this country directed from Whitehall and manned by a myriad of Civil servants ? Is Guild Socialism, once the rising favourite, now definitely

relegated to the limbo of rejected creeds ? Or are we to take, as an example of what we are to expect, the scheme for nationalisation propounded to the Samuel Commission with its towering strata of committees, reminiscent at once of one of those constitutional essays of the Abbé Sièyes and a Chinese nest of boxes ? Whatever it is, there are certain defects common to all, which make inevitable the rejection of all these schemes by the Conservative Party, for each of them offends against those principles we have laid down for our guidance. The foundation of each of them is the conception of a ‘system’, an organisation, which does not represent the evolution, either natural or assisted, of each particular type of industry or trade along the lines most suited to it, but which is imposed as a whole by the theorist guided entirely by his speculative conclusions and without regard to existing tendencies. Each of them offends against continuity. Even if it were granted that any one of them was demonstrably right and present conditions demonstrably bad, yet the existence of those conditions to-day and the results of them in the past have created certain obstacles. Even if Socialism was theoretically correct, even if it should undoubtedly have been adopted when industrial development first

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began, it does not mean that it would still be right to adopt it now. We have seen the appalling economic difficulties created in Russia by the sudden blotting out of one industrial regime and the substitution of a ready-made alternative. We have seen the credit complication which necessarily must ensue, and that in a country far less dependent on international trade and therefore on international credit than we are. Socialism ‘in our time’ spells economic disaster : Socialism ‘at any old time’ can safely be left to future generations to discuss if they still have any inclination to do so. Again, each of these schemes offends—and this is a fundamental objection—against reality. Neither man’s capacity nor his psychology are taken into proper account. It is easy enough to build up on paper a grandiose scheme of immense State industries, but the machinery is useless without the man to run it. Could human capacity, as we know it to-day, respond to the demands which would be made upon it ? We are urged to accept the nationalisation of the railways, to bring together the whole railway system under one head, yet the grouping of the railways into four systems has put a strain on direction which is visible to all. Mr. Wells, out-socialising the Socialists whom he so

unmercifully castigates, foreshadows in the world of some future Clissold the amalgamation of all shipping under a world director. Can he suggest any one else who would be capable of the task ? A Socialist state might survive if the supermen of history were its Cabinet ministers, if Confucius were at the Board of Trade and Napoleon were Minister of Transport, but the visible sources of supply leave us no grounds for such optimism. Socialism ignores yet another side of human reality, the money motive. It may be wrong—it probably is : it may be the result of the 'capitalist system'—if so, we must go back some thousands of years to apportion the blame ; but the fact remains that the desire of acquisition is still the dominant incentive of human enterprise and human labour. It may be that the gradual evolution of society will find a substitute ; but not in time to render the Socialist system even a remote possibility. Even to-day industry necessitates the taking of risks ; there are still opportunities for adventure. Why should a Civil servant or the delegate on the Commission of Control take risks or be adventurous ? There are no compensating advantages of success for the disadvantages of failure. A completely salaried industry would be an industry dead.

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Finally, we reject Socialism because, by its discouragement of the private ownership of property, it would deprive the individual of real independence. True that ninety-nine Socialists out of every hundred believe so strongly in the private ownership of property that their real object is that more people should enjoy the opportunity, but unfortunately the system which they so blindly embrace would necessarily have the opposite effect.

But if we reject Socialism as antagonistic to Conservative principles we must also do the same for the other extreme, unrestricted Individualism. That, too, offends against continuity, for all Governments since the Reform Bill have in some way or other interfered with industry. Conservative Governments and the Conservative Party have been, or have desired to be, particularly active, witness Factory legislation and Tariff Reform; whilst last autumn session the Conservative majority passed in the space of six weeks an Electricity Act, a Merchandise Marks Act, a Sale of Food and Drugs Act, and the supplementary estimate for the establishment of a Broadcasting corporation, all gross interferences with industry. Moreover, if it is to function at all, such a policy must be carried to its logical

conclusion—a free hand for employers, the sweeping away of all ‘restraints on trade’ such as Trades Unions, legislation with regard to conditions of employment, Trade Boards, Factory Acts and so forth, and the elimination by starvation of any surplus in the labour market. The policy of ‘laissez-faire’ never formed an integral part of Tory or Conservative policy, even during the period of our rapid industrial expansion during the last century, an age to the requirements of which it was peculiarly suited. To-day it would be a sombre gospel of despair, unlikely to commend itself to the thoughtful, for it postulates a lower standard of life for all. Nor is there now any economic justification for it, since, in fact, Government or no Government, the laws of supply and demand are no longer automatic and economic forces are no longer permitted free play.

The doctrine offends, too, against reality, for with industry the main problem in our national life, and likely to remain so for a generation at least, how possibly can any Government stand entirely aside from its consideration? It may well be that there should be a ‘mare clausum’ for political ships, that certain limits should be set on Government interference, but we have seen

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the end of ‘laissez-faire’. Somewhere between the two extremes, between Marxian Socialism and complete ‘laissez-faire’, must lie the land in which exploration is not only profitable but essential.

The possibilities of Government intervention in industry fall conveniently, though perhaps inaccurately, into the two categories which we have described as ‘its opportunities’ and ‘its obligations’. We include under the first head all those acts of commission and omission which, though external to the actual industry, are of assistance to it in its primary function of production and sale; under the second are grouped the measures which the Government, as representative alike of the provider of capital, the provider of labour and the consumer, may see fit to take for the protection of any or all of these interests. The consideration of both is essential, the one to enable British industry to compete on the most advantageous terms in the world market, the other to prevent its falling into complete decay from internal dry-rot. It is therefore to these two divisions that the body of this book is dedicated.

To many Conservatives Government help to industry means first and foremost Protective

Tariffs. There are, however, two reasons why we do not devote any space to their consideration. The first is that, while we are unable to agree among ourselves as to the intrinsic merit of Protection (disagreement on this subject is not peculiar) we are at least agreed as to the impossibility of advancing it in the near future as an integral part of an industrial policy. The history of the past twenty years is surely conclusive as to the chances of changing the popular attitude to Protection by political education alone. Since the disaster of 1906, when it could perhaps be said with some reason that the electorate was not sufficiently instructed as to its merits, a ceaseless propaganda had been carried on, and yet when the same issue arose in 1923 it was manifest that popular opinion had in the interval undergone no change. If Protection is ever to come in this country, it will come as the result of some great external change; say, for instance, the exhaustion of America's capacity for wheat export, and dear food as a reality instead of the adversary's bogey. Till then, whatever its essential merits, it must be regarded more in the light of a political sword of Damocles, suspended rather insecurely over our party's head, than as a practicable industrial policy.

The second reason is to be found in the general trend of European thought to-day. Even the most ardent Tariff Reformer would, we believe, admit the superiority of universal Free Trade over any system of national tariffs. We may seem, in fact we are, a very long way from that Utopia, but there are at least clearer signs of Continental disillusionment as to the efficacy of tariff walls than have hitherto been discernible. The bankers' manifesto, the steel cartel, the Franco-German iron agreement, a recent speech of M. Clementel, all go to prove a growing tendency to reject the single country as the economic unit. There is a long way to go before this tendency grows sufficiently in strength to sweep away all artificial barriers. The most we can hope for in the near future is a lowering of the walls. But it would be folly, by the adoption of Protection in this country, instantaneously to crush the first gropings towards the light and to place an insurmountable barrier in the way of a development so favourable to ourselves.

The policy of safeguarding rests on rather a different basis. Its ultimate effect—to put the case of the convinced Free Trader—is to divert into certain channels selected by the Government a disproportionate share of the whole volume of

national trade. Sheffield steel and Nottingham lace command a fictitiously lucrative price for which Durham coal and Cumberland iron are penalised. But dangerous though such interventions on the part of the Government might prove, they do not appear to be outside its province. There are cases of comparatively small industries, highly centralised, where bad trade creates conditions of the greatest misery and where, even on the Free Trader's hypothesis, the cost of relief spread over all the exporting industries of the country is barely perceptible. Provided the conditions of the Government White Paper are strictly adhered to, it is practically only in such cases that safeguarding is permissible, and it does not appear to us that any but the most bigoted Free Trader need feel alarm. To the Protectionist, safeguarding, as a foretaste of the real cake, is particularly delectable, while the ordinary man welcomes a system which does appear to give relief in certain cases without any perceptible disadvantages.

To us, however, Government assistance to the industry is not synonymous with Protective Tariffs; there appear to be other methods, less controversial but perhaps more fruitful. The commercial, the financial, and the imperial policies

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of the Government will all have their direct influence for good or ill on the prosperity of industry.

Has our party got a commercial policy ? Is our Board of Trade developing along the lines of the American State Department under Mr. Hoover ? Do the manufacturer and the salesman get really useful information and advice from the Government Department ? Has adequate consideration been given to amalgamation as the industrial tendency of the day, and any policy laid down for Government action in that respect ? Should the Government ignore industrial amalgamations, should it assist them, taking the Mining Industry Act of 1926 as a precedent, or should it adopt the still more intimate relationship of which Germany has furnished us with examples ?

Is the financial policy of the Government sufficiently adapted to the needs of industry, or is it too subject to the influence of the City and the interests of London as a world financial centre ? Does the Government, by such means as the Trade Facilities Act, make the best use of the national credit for the purpose of advancing national trade ? Is a right balance struck between the necessity and the advantage of adequate defensive forces and great social services and the

necessity and advantage of lessening the burden on the taxpayer ? Is the incidence of taxation favourable to industry ? Have we struck the right ratio between national and local taxation, or are the rating system and the incidence of rates in need of a thorough overhaul ?

Finally, now that an Imperial Conference has reached at least a temporary solution of imperial political relations, are we proceeding to an equally satisfactory settlement of the Empire's industrial organisation ?

All those questions we discuss under the heading of the Government's 'opportunities', in the hope, not of answering them, but at least of demonstrating that each and every one of them may provide a possible opportunity of fruitful intervention. We are told that industry's one demand of Government is to be left alone by it, and certainly most previous interventions dictated and shaped by old-fashioned views have proved to be to the disadvantage of industry. Must that necessarily be so if both Government and industry try to co-operate with a clearer understanding of their respective functions in the State ?

It is when we turn to the discussion of the Government's obligations, of the intervention it may have to make, not in the conduct, but in

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the internal organisation of industry, that we approach the most vital question. The help which the Government can give to the competing industries is important, but industry has done without it in the past and, though sorely handicapped, may continue to struggle on without it in the future. If this internal problem is not solved either with Government assistance, if such is possible and desirable, or without it, then the whole industrial structure may fall into irretrievable ruin. 1926 will not bear repetition : can we avoid it ?

The main problem which awaits solution is the elimination of the distrust and discontent steadily growing among the wage-earners and imperilling, not so much the present system of society, as our very national existence. What are their causes ? To us it does not seem possible to dismiss them as being wholly material, questions only of wages and hours, disappearing automatically if and when trade revival brings improved conditions. At the root of the problem lies a psychological and not a financial grievance. Successive reform bills have increased the worker's political status ; higher wages, more leisure, and better education have improved his social standing ; only his industrial status remains unchanged.

The man who outside the factory is perhaps chairman of the local Labour Party, a town councillor, a power in the Workers' Educational Association, or, as a prominent co-operator, has close connection with trade from the managerial side, inside the factory may still find himself a cog in the machinery, expected to do the work allocated to him without complaint and without thought. In 1924 such a man could and did dictate to the Prime Minister of England, but he had to take orders from his works manager. On the other hand, in any organisation of industry, individualist, socialist, or communist, some one must give orders and some one must obey them, if the machine is to work at all. Mere subjection to discipline, mere necessity for obedience, are not in themselves good cause for discontent. How, then, is it possible so to connect the wage-earners with management, that the executive authority of the latter is left unimpaired and the legitimate aspirations of the former are satisfied ?

Obviously it is and always will be impossible to devise any scheme applicable to industry as a whole, for industry itself will never be homogeneous. Some industries must always contain a greater element of risk than others : they will have to face difficulties of competition, of changing

fashions, of fluctuating demand, from which other industries may be comparatively immune. Each will have its peculiar problem, each must find its own solution. In some cases the direct method of co-partnership, of workers' shares, even of workers' representatives on the board of directors, will be possible. In others the growing tendency of management to become divorced from capital and, as it were, to hold a completely neutral position between capital and labour, will remedy the grievance : in all it will be essential to devise better machinery for negotiation and the settlement of disputes. Those are the methods we discuss under the heading of the 'obligations' of the State, not with any idea of providing ready-made solutions, but as indicating the lines along which research must proceed.

Here, too, will be found one obvious omission, of which some explanation must be given. We do not deal at all with possible reform of trade union law, for that is the problem of the hour. The Government's solution is believed to be already in the minds of the members of the Cabinet, and it will be in the hands of the people by the time this book appears. An irrevocable decision will have been taken, on which clearly nothing we write here could have any effect.

That decision will be not only irrevocable but it must also be final, for a reform of such magnitude and of such a controversial nature cannot be done on the instalment plan. The Bill of 1927 must for many years represent the Conservative Party's contribution to this question. The object, therefore, of any book written, not for the purposes of the hour or the day but of the future, must be to indicate the complement to this legislation, the complete whole into which it fits as a necessary part and in which it loses any possible identity as an isolated attack on the working-class.

Such are the problems we deal with, imperfectly perhaps and inconclusively, but those too are the problems all have to face and some may succeed in solving. Their solution will require the best of our national intellect and knowledge, our courage and long-sightedness, but, above all, it will call for a jettisoning of our prejudices.

Unfortunately the science of modern economics is neither simple nor clear-cut. Our knowledge of it is at the present time so limited that we have never been able to evolve any fundamental laws upon which to build up theory. In consequence of this, many of the economic beliefs now generally held may prove in practice to be erroneous, and anything in the nature of dogma is rigidly to be

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eschewed. Those who, like us, do not believe that salvation from present ills lies in the doctrines either of Socialism or ‘laissez-faire’, view with considerable dismay the recent incursion of economics into the field of acute political controversy, for which it is, of all subjects, the least suited. This book is a plea for economic opportunism on the part of politicians. It is the duty of Governments to facilitate and not to hinder progress by securing that the political and industrial system shall be organised in conformity with the economic tendencies of the age, and in the interests of the community as a whole. But these tendencies can only be detected and analysed by those who approach the whole subject with open minds, determined to examine the facts of the situation in an impartial spirit, and free alike from preconceived economic beliefs and political bias. The truth can only be discovered by those who genuinely wish to find it. The problems of economics are frankly physical. They are not, like those of religion or politics, metaphysical; and in the industrial sphere, if progress is to be made, both theory and practice must be scientific rather than philosophical.

We cannot better conclude these introductory pages than by the following quotation :

If, then, we look no further than the next five years, there is good reason for moderate satisfaction. Then why look further? The reply is that we live in a rapidly changing world and that far-seeing men are suggesting the thought that we are at the beginning of a major cycle of forces in human affairs which may in time produce strange effects on the stage of life. The most obvious sign of this upwelling force is the spirit of challenge. Thus the hierarchical order of human relationships—social, ethical, political—is no longer accepted as the final expression of human wisdom. . . . Men of wisdom throughout the world interpret the signs as the birth throes of a new age, which in course of time may displace the old order. . . . If these thinkers be right, how should we prepare to meet the circumstances?

The peculiar interest of these words lies in their context. They are taken, not from a political article or a philosophical work, but from the weekly circular of a city investment house, and they represent the view of a well-known financial and industrial expert, not of a sociologist, still less a Socialist. If the City is opening its eyes, is Westminster to remain blind? While others are looking forward can Conservatives afford to sigh for the vanished snows of yester-year, to waste their time in striving to refurbish the faded charms of an antiquated Berthe? Either with us or without us the world of industry is moving on: which is it to be?



PART I  
THE OPPORTUNITIES OF THE STATE



## THE OPPORTUNITIES OF THE STATE

### INTRODUCTORY REMARKS

THIS chapter is devoted to an analysis of the opportunities for State assistance to industry. We have already discussed why the plea for non-intervention cannot be supported; how Government at every turn by its taxation, by its borrowings, by its imperial and international relationships, must affect industry, and it remains now to determine whether it shall do so cordially and beneficially or vexatiously and injuriously. Further, the time has surely come when those responsible for the government of the country must consider whether the assistance which industry can expect must be limited to the negative virtue of abstention from injury and hindrance, or whether more active methods, hitherto looked at askance, should not be adopted. The tremendous economic movements, arising from a multitude of causes, which periodically surge across the world, cannot be prevented or

accurately predicted by the individual, but the history of the war teaches us that they can to a very considerable extent be mastered and controlled by Governments. The war period shattered preconceived economic notions, proved possible theoretic impossibilities, removed irremovable barriers, created new and undreamt-of situations. Yet by far the greater part of the legislation which to-day governs trade and industry dates from before that period. We are surely entitled to ask whether it is now adequate to meet the vastly changed conditions of the modern economic era.

Such an inquiry, difficult as it may be for an economist, is doubly so for a politician. Party government can only be carried on by attaching to the various parties clear and easily intelligible labels, by adopting a political neatness which has no counterpart in the world of reality. The great divergencies in temperament and outlook which really divide political armies are unsuitable material for a platform speech, and have to be supplemented by inaccurate generalisations. The internal opposition to the Electricity Bill proved that every Conservative who suggests industrial changes or supports industrial legislation runs the risk of being dubbed a Socialist by his friends, while any attempt to dissociate economics from

class prejudice or business from sentiment makes a Socialist a traitor to his class and his creed. Obstacles, laboriously constructed by Palace Chambers and Eccleston Square, make artificially more difficult the road, which bristles already with natural difficulties. We believe, however, that such suggestions as we put forward in the ensuing pages, even should they be deemed impractical from the business point of view, cannot possibly raise any issue of party politics.

For the purposes of this chapter we have divided the area of possible Government intervention into three sections: the Commercial, the Financial, and the Imperial. In two of those, the financial and the imperial, the Government has an inevitable place. By the methods and extent of revenue-raising it has a direct influence on the course of industry. It can allow the weight of taxation to fall unduly on one section, too lightly on another; or it can overburden all alike. As the biggest borrower in the country it can, and, in conjunction with the Bank of England, does, effectively regulate the national supplies of credit: on it therefore currency stability depends. Nor, again, could any wide scheme of imperial trade relationship be formulated without the aid and the agreement of the British Government.

Only in the first section, the commercial, will any controversy arise as to the admissibility of Government action. Captains of industry demand that industrial policy and industrial research should be left in their hands alone, and the arguments they adduce are undoubtedly cogent. Few people nowadays seriously suggest that the State should conduct the industries of the nation. But it is the duty of any Government to create and to sustain conditions under which it is possible for other people to conduct them, and these have recently been conspicuous by their absence. Captains of industry must look at the industrial activity of the country primarily from the view-point of their own undertakings. The Government alone is in a position to survey the whole field of industry impartially, to judge each industry not only from the economic standpoint but from the point of view of its national utility, to apply remedial measures to the black spots in the national interests, and above all, to safeguard the interests of the consumer as well as those of the producer. The commercial area can therefore not be excluded from the survey of the more important opportunities for Government assistance which these remarks introduce.

## **COMMERCIAL POLICY**

- 1. THE TENDENCY TOWARDS COMBINATION**
- 2. THE NECESSITY FOR STATISTICAL INFORMATION AND AN ECONOMIC STAFF**



## COMMERCIAL POLICY

### I. THE TENDENCY TOWARDS COMBINATION

THERE are to-day signs on every hand of a great world movement away from unfettered competition and the conditions of economic anarchy which such competition now brings, towards federation, co-operation, and combination. This movement arises from a desire for a world economically organised on scientific lines; and the experience gained during the Great War has given it added impetus. For it was the war that proved once and for all that economics is a dynamic and not a static science, a science, moreover, necessitating a certain degree of elasticity and even of opportunism. Amazing and wholly unsuspected powers, on the part of Governments and groups of individuals, to alter, to mould, and to control those very economic forces which had previously been regarded as uncontrollable, were revealed during those momentous years.

The most striking example of these modern tendencies is to be found in the extensive trustification of industry now in progress. The form it is taking is the amalgamation of industries of a similar kind, resulting in what has become known as the ‘horizontal’ combine. The object of these trusts is threefold: first, to control the production of a particular article; secondly, to eliminate waste and reduce overhead costs; and thirdly, to control the price of the article, and effect economies in its distribution by means of co-operative selling organisations and what has become known as ‘orderly marketing’.

It must of course be recognised that this movement may be carried too far or applied in circumstances where it is unsuitable. As always in human affairs, there is a danger of exaggeration in the fashionable dogma of the moment. An amalgamation, for instance, will not be as successful as a smaller and more concentrated organisation in certain forms of business; especially is this true of certain specialised enterprises, where the personal factor is of considerable importance. It is also very necessary that the concerns amalgamated should really be homogeneous, and that the similarity should not be merely superficial. Mr. Goodenough, the chairman of

Barclay's Bank, in his speech to the shareholders this year, made some very illuminating remarks on this subject. While strongly urging the value of the right type of amalgamations, he issued a warning against the grouping together of different businesses merely on the ground of some loose connection which might appear to exist between them. Indeed, this has been proved by experience to be a perilous and unsatisfactory procedure. The 'vertical' trust—that is, an amalgamation of wholly different enterprises in order to effect control from the raw material to the finished product—has been tried and found on the whole unsuccessful. Opinion has changed towards the 'horizontal' combine—that is, between enterprises which are really alike in fundamentals. It is generally believed that only in this form can the real advantages of combination be obtained without its drawbacks.

The horizontal trust has for some time been a feature of American industrial organisation. It is the logical result of the industrial policy pursued by the United States during the past ten years, the basis of which is maximum production. In a speech delivered in June 1926, the chairman of the Chamber of Commerce of the United States made the following pregnant observations :

To secure high production we quickly learned that two factors immediately were necessary. They were :

- (1) Power and machinery.
- (2) The development of business units large enough to command capital to set up and maintain elaborate manufacturing plants.

We placed increasing horse-power behind our machinery until to-day we have an average of 4 h.p. available for every industrial worker in the United States. *High production, high wages, and high consumption, therefore, are the cardinal principles of modern American industry,* and throughout the world to-day American industry is competing with the industries of other countries which are proceeding on the theory of low production, low wages, and low consumption.

Two factors . . . are most largely responsible for our favoured position. The first, that of high production with its attendant corollaries of high wages and high standards of living. The second, the co-operative spirit which to-day exists between management and labour within American industry is the important part of the spirit of team-work which is more and more infusing our whole industrial fabric.

Bankers meet bankers . . . to improve the whole banking system of the country. Manufacturers gather . . . to provide joint counsel and joint action on those problems which affect the industrial production of the nation. We see trade associations developing through group action the science and standards of each industry, and we find the business men of each community joining chambers of commerce and merchants' associations to improve civic and commercial facilities.

It is not necessary to stress the advantages or disadvantages of trade amalgamations of the right kind. The all-round superiority of the combine over the small firm in many classes of industry is frankly and universally admitted both in America and Europe. Briefly, it is due to the greater command of capital and credit for development purposes, the capacity for concentration and economical disposition of plant, and the ability to reduce overhead charges and eliminate waste, coupled with the advantages of large-scale selling organisations and the consequent economies which can be effected on the distributive side. Perhaps the most famous, and certainly one of the most successful, combines in America is the United States Steel Corporation. Last year (1926) the chairman, Judge Gary, stated in an interview :

I think if you were to make a study of the steel and iron business prior to the formation of the U.S. Steel Corporation, you would find that it has evolved from a chaotic—almost anarchic—state into an orderly and well-systematised industry; that the condition of labour has been immensely improved and its earnings enhanced; and that withal the public is better served. . . . Competition is still the order of business, but unfair and crushing competition is the exception. Indeed co-operation or combination is rapidly being

substituted for it, and it is interesting, too, that the public no longer looks upon the combination of industries as the precursor of inevitable extortion. And why? Because most of the great combinations of capital and industry have demonstrated their work for the stabilisation of industry and the improvement of service. Moreover, the wide participation of the investing public in these enterprises has done its share in stilling criticism.

The industrial development of Germany during the past six years has been even more remarkable than that of the United States. Socialism and the 'vertical' trust have each in turn been tried out, and discarded in favour of the horizontal combine. The formation of the European Steel Cartel under German leadership is the most recent and the most far-reaching development of modern industrial policy on the Continent. And there can be no doubt that in Europe the combine and the cartel have come not only to stay but to spread.

That a similar movement should arise in this country was inevitable, and it is now taking place. For instance, in the chemical, tobacco, soap, cotton thread, and jute industries mergers have already been carried out on so large a scale that virtual monopolies have been established. All these industries have now been organised

on ‘mass production’ lines, with the object of reducing overhead charges and controlling prices. Others are bound to follow. The time is indeed not far distant when the iron and steel industry and the Lancashire cotton industry will be reorganised on similar lines, with centralised co-operative selling agencies. The importance of these developments can hardly be over-emphasised. It is no exaggeration to say that the whole of our organisation for production is in the process of undergoing a complete revolution.

There are those who regard this process with apprehension and dismay; who sigh for the old days of free internal competition. But, in the words of Mr. Snowden, “it is no longer a question of whether or not we like trusts, because they are inevitable. They will continue, whatever obstacles we attempt to put in their path, and they will tend to become not merely national but international.”

In addition to all this we find ourselves confronted by a world-wide growth and extension of price-fixing associations, co-operative organisations, export control boards, pools, and so forth, all tending to prevent that ‘free play of economic forces’ of which we used to hear so much. So far as it is possible to judge after a somewhat

limited experience, the general effect of horizontal trusts is to increase production and to cheapen production, the two things most necessary for the prosperity of mankind. They tend *not* to increase prices, but rather to obtain wealth for industry by means of small profits on a large turnover. Moreover, they render it much easier for employers in the heavy industries to adapt themselves to the modern delimitations of the trade unions in this country. When you get the organisation of owners and trade unions coinciding by industries, negotiation and even co-operation between the two are bound to be enormously facilitated. The way is then open for the establishment of really valuable industrial councils representative of both employers and men, charged with certain definite duties affecting the general interests of the industry concerned.

If we admit, therefore, the existence of the growing tendency towards combination, the question arises as to the proper attitude of the State in these changing conditions of industry. Is there any assistance that can properly be given in order to facilitate and accelerate the movement, or should the Government as such stand aside, giving nothing more than possibly sympathetic attention to the development of these new forces ?

It appears to us that there are three possible methods of Governmental assistance to this movement towards combination in industry which deserve consideration. The State might assist, first, by removing certain obstacles to amalgamations ; secondly, by giving certain compulsory powers to their promoters ; thirdly, by lending its credit for their flotation. For the first two courses a precedent may be found in the Mining Industry Act 1926 ; for the third, in the various Trade Facilities Acts. Each of these methods is worthy of some attention.

One of the serious obstacles to amalgamations at the present time is the stamp duty which becomes payable on the flotation of a new company designed to take over a number of existing concerns. It may be observed that this is an obstacle which does not exist in the United States, where a stamp duty is not leviable on such transactions. There is no doubt that at this moment there are several such companies which might come into existence if it were not that the amount of duty payable is a very considerable item. The Mining Industry Act 1926 contained a provision specially exempting from liability to stamp duty companies floated for the purpose of bringing into being amalgamation of colliery enterprises. While

we would not suggest the abolition of stamp duty (which would entail a serious loss of revenue), or even a general exemption in favour of all amalgamations, we believe that provision should be made for exemption in all cases where it could be shown that the proposed amalgamation would be of real advantage to the industry concerned. There should be no difficulty in arranging for a Treasury committee, representative of experienced financial and business opinion, to which appeal could be made. If such a committee were satisfied that a case was made out, it could report to the Treasury in favour of the particular remission. Such a concession would be, in our opinion, of very real service. It would help considerably in the facilitation of this process of combination, and it would be in the interests of industry and of the community as a whole.

The Mining Industry Act 1926 also laid down an elaborate procedure under which compulsory powers can be given to the promoters of a particular colliery amalgamation in certain circumstances. Briefly stated, these powers can be exercised by a majority of concerns in a particular group which agree to the amalgamation, in order to coerce any recalcitrant undertaking whose adherence is essential to the success of the scheme.

We believe that similar powers with suitable machinery should be extended to other industries. While it is true that ample safeguards need to be provided against the misuse of such a system, the mere fact that compulsory powers existed in the background, ready to be invoked in a stray case against mere obstinacy, would have a considerable effect. Care must indeed be taken to protect an industry against the blackmailing or speculative promoter. But there is no reason why a tribunal should not be devised which would command public confidence and respect, more especially if it were armed with power to cast in damages and costs any person guilty of a frivolous or vexatious application. It may be objected that any desirable amalgamation will come into being without this extraneous aid ; that it is no function of the State to interest itself in the matter at all. But on the other hand, the principle of applying compulsory powers in the interests of a proposal which is believed to be of economic value to the community in order to bring into line a small number of objectors, is well established. Every railway, almost every public utility company in the country, exists by virtue of this principle. The extension of it first by the Mines Working Facilities Acts of 1918 and 1922, and then by the

Mining Industry Act 1926, has carried the principle somewhat further. We believe that these precedents deserve to be made the starting-points of further legislative action along the same lines.

The third possible method of State assistance—the use of national credit—needs very careful consideration. The history of the Trade Facilities Acts is not altogether a happy one; and there are many obvious objections to the disturbance of the money market by the use of national credit to float loans which could probably well be floated without it. It is true that one of the strongest objections felt against loans under the Trade Facilities Acts—the obvious resentment felt by any undertaking which had succeeded in financing itself that its rival should be financed at a cheaper rate by the taxpayer—would not apply to assistance given to the formation of a combine or trust. The loans granted under the old system were not always very scientifically conceived. There were many instances of companies being helped to build new plant in industries where there was already a productive capacity from up-to-date plants greater than the market could absorb. Credit granted, not for the purpose of adding a new competitor to an industry already sinking under

the weight of competition, but for the purpose of assisting all the existing members of the industry to reorganise themselves upon modern and scientific lines—this would be a very different matter, and the same objections would not be felt.

It is also true that a great deal has been done in Germany by the direct financial assistance of the State towards industrial reorganisation. These experiments deserve careful study ; but, in our opinion, there is not yet enough evidence of their success to justify any similar attempts in this country on any wide basis. We deal in the next section with the problem of how these questions may best be considered.

It may be found that the credit assistance of the State will not be required. The tendency to combination is growing from natural causes. There is even a danger that it may go too far or be led into unsound courses. But at the present time the public will probably be found very ready to finance such schemes where it is required to do so and where it has confidence in their promoters. We believe that if the other methods of State assistance which have been referred to were given to the movement, it would not be necessary to give direct financial or credit assistance except in certain special cases. For such

a scheme as that introduced in the Electricity Act recently passed, it was only reasonable for the State, since it had decided to lay down itself the lines on which the electrical industry is to develop and be directed, to give the assistance of its credit in the flotation of the loan required to finance a plan of its own making. Such cases will occur again. But in the ordinary trade amalgamations which will take place to an increasing extent in the normal course, we do not believe that an extension of the Trade Facilities Act methods will be required as a general rule.

## COMMERCIAL POLICY

### 2. THE NECESSITY FOR STATISTICAL INFORMATION AND AN ECONOMIC STAFF

ONE of our chief difficulties to-day is the absence of a guiding economic hand. There is a marked divergence of outlook and opinion between finance and industry, involving a considerable amount of friction. And in industry itself neither capital nor labour see their way clearly. The Government, with all its facilities for obtaining information, is in a position to indicate to the nation the direction in which it is desirable to proceed, and the practical steps which should be taken in order to obtain a general measure of prosperity.

In America to-day the Government, in the words of the chairman of the Chamber of Commerce, “devotes its resource and its authority to the solution of industries’ difficulties, devising means of eliminating waste and of standardising production, collecting data to guide the course of

commercials, and joining in a concerted movement for national and industrial progress".

No such claim can be made on behalf of the British Government.

It would seem that the Board of Trade should be something more than a mere spectator of our commercial and economic life. Its proper function, surely, is that of economic adviser to the nation. Industry wants to know the general lines upon which to proceed in the interests of the nation and of the Empire. And it also wants, at any given moment, information as regards current prices, the general measure of supply and demand, the amount of stocks in hand, the best methods of eliminating waste, where to buy, where to sell, on what terms credit is available, and so forth.

For example, in the case of agriculture, the Report of the Committee on Stabilisation of Agricultural Prices states at paragraph III.:

It is hardly necessary to point out how much the system of orderly marketing must depend on the use of adequate statistics in regard to production and prices of agricultural commodities. Clearly, the policy of any central co-operative marketing association must be guided by such statistical information, and the capacity to understand and to judge it must be one of the chief conditions of efficient management. We suggest that

a direction in which the State might give assistance would be in the provision, at a low cost or free of charge, of information of this kind, with a view to enabling co-operative associations to judge not only of the present conditions of the market, but of the tendencies at work, both at home and abroad, which might affect the market in the future.

But if the Government is to give sound advice and accurate information to industry, it must possess a wide knowledge of economic facts, and a policy based upon it.

We therefore wish to emphasise the necessity of setting up something in the nature of an Economic General Staff in this country, to advise and to assist the Government of the day in dealing with the complicated issues which arise in connection with industry.

No adequate survey of the whole field of industry has ever been made in Great Britain by any permanent body.<sup>1</sup> No watch is kept upon economic developments and their various reactions. It is clearly impossible to cure a patient until the malady has been diagnosed, and subsequently kept under observation.

Cabinet Ministers are, by the very nature of their administrative duties, prevented from doing

<sup>1</sup> The Balfour Committee might indeed be developed into such a body, after it has completed its initial investigations.

either of these two things. And the success which has already attended the efforts of the Imperial Economic Committee and the Empire Marketing Board during their brief existence, justifies a demand that similar methods shall be employed, on a larger scale, with regard to industry as a whole. The effect of the shifting of the balance of industry from one area to another, from heavy to light, has never been considered from the national point of view. Yet this question is of enormous importance. What is the extent of the change-over ? Has it been completed ? Is the result going to be a degree of stabilisation in the heavy industries, with a more or less fixed output and an estimable demand, coupled with a rapid expansion of the lighter and highly technical industries ? What are the problems connected with labour mobility which are certainly involved, and the solution of which must depend to a large extent on Government action ? The present system of unemployment insurance is open to the very grave objection that it encourages the immobility of Labour. It is possible—indeed it is probable—that the whole system will have to be revised in the near future to meet changing conditions.

The advantages of the fullest possible publicity,

and the beneficial effects of the existence of full statistical information upon industrial relationships, need emphasising.

Those who represent the workers should be kept informed of the facts of production costs, profits, and losses, if they are to have any confidence that they are obtaining a square deal. Experience in the United States has proved that the publication of statistical information is not only valuable in the interests of good industrial relationships, but is of great benefit to employers, in that they are thus placed in constant possession of information relating to the whole field of industry, its efficiency and its capacity.

In addition, the force of public opinion renders it highly desirable that the public as a whole should be kept supplied with fundamental data, the knowledge of which is necessary for a correct appreciation both of the general situation and of any particular situation.

The case for publicity has been amply made out in a report on the "Facts of Industry" by a Committee presided over by Lord Astor, and composed of such men as Professor Bowley, Mr. Brownlie, Mr. Hichens, Mr. Hodges, Mr. Layton, Mr. Pugh, and Mr. Kenneth Lee. The methods by which the information required shall

be collected and disseminated from a subject which requires more detailed examination than can be accorded to it here, and which is eminently suited for the attention of an Economic Staff of the type suggested.

But, on the large issue of publicity in the interests of the nation as a whole, it may be claimed that the dissemination of reliable information and statistics relating to the measure of demand and supply would undoubtedly help to diminish the violent fluctuations from which we have suffered so much — an argument reinforced by the Astor Committee, from which we take the following quotation :

Broadly stated, what is needed is an accurate measure of supply, of demand, and of the rate of change in both. In order to form an estimate of the total supply available, and of the rate at which it is changing, manufacturers and merchants need to have before them figures showing the total stocks in hand of the principal varieties of goods, the total output of each industry over a given period, and if possible the proportion of that output to the total productive capacity of the industry concerned. Demand is in the nature of things more difficult to measure ; but valuable indications can be derived from figures which show whether stocks are increasing or decreasing, and whether new orders exceed or do not exceed deliveries. It should be noted, moreover, that the interest of business men in such figures is not

limited to the statistics of their own trade alone. The shipbuilder and engineer will be closely interested in the figures relating to the iron and steel industries. The cotton manufacturer will be concerned with the output of textile machinery, for if that shows signs of rapid increase he can infer that the potential output of cotton goods will very soon increase proportionately. Finally, the whole business world is affected by the prosperity or adversity of each of its components.

The methods of Mr. Hoover, the United States Secretary for Commerce, deserve the most careful study. His Department produces a decennial census of population, a five-yearly census of production, a biennial report on the products of manufacturing industries, monthly and quarterly statistics of production and consumption issued in his now famous *Surveys of Current Business*, and a weekly survey of foreign trade. His activities cover the whole economic sphere, and embrace practically every industry in the country.

He thus informs industry as to the general lines on which it is desirable to proceed at any given time; how to avoid waste; and where to sell. He indicates the total requirements of the nation from time to time, its production, and its saving. As a result of a campaign for standardisation of components, simplification of processes, and the elimination of waste,

'Hooverism' is reputed to have effected savings over the whole field of American industry of something like £500 millions a year. It is welcomed and appreciated by every industrialist of repute in the United States. Our own Board of Trade, in conjunction with, or through the medium of, the Economic Staff, could adopt similar methods, and be furnished with statutory powers to demand from industries and trading associations the information it requires for this purpose. At the moment there is little touch between the Government and industry in this country. A single illustration will suffice to show the present state of affairs. Within twenty-four hours of the formation of the European Steel Cartel, Mr. Hoover had ordered an inquiry to be made into its possible effect on the American steel industry. There was nothing tangible to show that the Board of Trade had taken any equivalent action.

There are other fields of activity, almost as important, for an Economic Staff. For instance, there are the problems connected with foreign investments. Some sort of equilibrium should be maintained between foreign and home trade. This is largely conditioned by investments. What is the relation between the two at the present time?

We do not know. It may be necessary temporarily to curtail our investments overseas in the interests of our 'visible' exporting industry. If this is the case, we should be told so, and steps taken by which investors desiring to secure long-term investments can obtain them in home industries on sufficiently attractive terms.

Another question for urgent consideration is that of direct assistance to industry by the State. The Trade Facilities legislation, as we have already indicated, is not very satisfactory. It creates large contingent liabilities for the British taxpayer, at the same time allowing him no say in the conduct of the businesses for whose benefit his money is applied; and it dissipates the national credit.

In Germany this problem has to some extent been overcome by Government association rather than interference; that is to say, the State itself becomes a member of the unions of the great public companies, now being increasingly formed into horizontal combines. It is thus able to assist them directly, without the obvious charges which would be levelled against the British Government were it to adopt a similar policy under present conditions. It is not probable that this method would prove generally accept-

able in this country. It is conceivable, however, that in the event of an industry of fundamental importance, such as the steel industry, amalgamating its component parts and forming a national trust, the Government might desire to afford to it, in the initial stages, assistance of a very definite character, in the national interest. It would then be the duty of the Economic Staff to consider how this could best be effected.

The direction in which the national credit should be applied involves the question of the extension of credit facilities not only to those specific industries which occupy a position of special importance in relation to the State, but to industry as a whole.

It is a matter which demands the earnest attention of the Government at the present time, for credit is the life-blood of an industrial community ; and our banking system, in the opinion of some critics, has been insufficiently elastic to play a substantial part in the vital process of industrial reorganisation. In this connection it is instructive to observe the care which the Americans have bestowed upon this branch of economics, their meticulous classification of the various credit operations, and their development of the hire-purchase system.

Finally, there is the important question of markets. Each individual industry naturally studies the market position from its own point of view. But the Government, with its manifold sources of information and superior facilities for obtaining it, can survey the world situation as a whole. An Economic Staff working in co-operation with the Department of Overseas Trade and the Empire Marketing Board could supply our industrialists and traders with a constant stream of information as to the condition of world trade. It could tell them where to buy their raw material and where to sell their finished products, and the current prices obtaining for both. It could point out the markets capable of expansion and the kind of organisation and amount of capital required for their development. And it could also indicate those where competition was exceptionally keen, and the sources and character of such competition. It cannot be maintained that the wide and gratuitous dissemination of information of this kind would not be of immense benefit both to individual traders and to the nation.



## **FINANCIAL POLICY**

- 1. NATIONAL FINANCE**
- 2. LOCAL FINANCE**
- 3. CURRENCY AND CREDIT**



## FINANCIAL POLICY

### 1. NATIONAL FINANCE

THE many problems which arise from any consideration of the National Balance-Sheet have been canvassed and debated during the last few years in almost every part of the country. The comparatively short space here devoted to this part of our subject is not of course due to any failure to realise its paramount importance. It may rather be accounted for by the obvious fact that the subject presents enormous difficulties, great enough to overawe any but the most self-confident and self-satisfied critics. Nor is it easy to do more than state a few generalities, most of which would carry the support of ordinary opinion, without carrying much further the subject itself. The realm of national finance is not one in which any novel and far-reaching changes are likely to be of service. Our difficulties will yield only to determined and courageous effort on the part of the community as a whole ;

but it is probably true that the most hopeful aspect of the situation lies in the possibility of increasing the national wealth by a harmonious working of the industrial system and by the full development of all our latent potentialities, rather than in the uncertain prospect of the reduction of the burdens of expenditure and debt.

It may not be out of place to quote in connection with this point an interesting passage from Lord Macaulay's essay on Southey's *Colloquies on Society*, which deals with this very question. The essay, it may be recalled, was written in the year 1830, in a period of political and financial difficulties not altogether dissimilar from those which confront us at the present time.

The present moment is one of great distress. But how small will that distress appear when we think over the history of the last forty years ; a war, compared with which all other wars sink into insignificance ; taxation, such as the most heavily taxed people of former times could not have conceived ; a debt larger than all the public debts that ever existed in the world added together ; the food of the people studiously rendered dear ; the currency imprudently debased, and imprudently restored. Yet is the country poorer than in 1790 ? We firmly believe that, in spite of all the mis-government of her rulers, she has been almost constantly becoming richer and richer. Now and then there has been a stoppage, now and then a short retrogression ;

but as to the general tendency there can be no doubt. A single breaker may reeede ; but the tide is evidently coming in.

If we were to prophesy that in the year 1930 a population of fifty millions, better fed, clad and lodged than the English of our time, will cover these islands . . . that machines constructed on principles yet undiscovered will be in every house, that there will be no highways but railroads, no travelling but by steam, that our debt, vast as it seems to us, will appear to our great-grandchildren a trifling encumbrance, which might easily be paid off in a year or two, many people would think us insane. We prophesy nothing ; but this we say : If any person had told the Parliament which met in perplexity and terror after the crash in 1720 that in 1830 the wealth of England would surpass all their wildest dreams, that the annual income would equal the principal of that debt which they considered as an intolerable burden, that for one man of ten thousand pounds then living there would be five men of fifty thousand pounds, that London would be twice as large and twice as populous, and that nevertheless the rate of mortality would have diminished to one half of what it then was, that the post-office would bring more into the exchequer than the excise and customs had brought in together under Charles the Second, that stage-coaches would run from London to York in twenty-four hours, that men would be in the habit of sailing without wind, and would be beginning to ride without horses, our ancestors would have given as much credit to the prediction as they gave to *Gulliver's Travels*. . . . We cannot absolutely prove that those are in error who tell us that society has reached a turning point, that we have

seen our best days. But so said all who came before us, and with just as much apparent reason. "A million a year will beggar us," said the patriots of 1640. "Two millions a year will grind the country to powder," was the cry in 1660. "Six millions a year, and a debt of fifty millions!" exclaimed Swift; "the high allies have been the ruin of us." "A hundred and forty millions of debt!" said Junius; "well may we say that we owe Lord Chatham more than we shall ever pay, if we owe him such a load as this." "Two hundred and forty millions of debt!" cried all the statesmen of 1783 in chorus; "what abilities, or what economy on the part of a minister, can save a country so burdened?" We know that if, since 1783, no fresh debt had been incurred, the increased resources of the country would have enabled us to defray that debt at which Pitt, Fox, and Burke stood aghast, nay, to defray it over and over again, and that with much lighter taxation than what we have actually borne. On what principle is it that, when we see nothing but improvement behind us, we are to expect nothing but deterioration before us?

We have ventured upon this somewhat lengthy quotation because it expresses, in the most vivid and dramatic language, a point of view which is often overlooked, more especially in that period of pessimism and reaction which naturally follows a time of great national effort and strain. It cannot, however, be denied that it is along such lines of thought that we need to advance to-day. The possibilities of commercial and industrial

development in this country are indeed vast. We may be on the brink of scientific discoveries which may give us an enormous future increase in production. We have in the Dominions and in the Crown colonies, apart from the rest of the world, huge markets awaiting exploitation. If we can achieve a reasonable measure of stability in our political system ; if we can devise an industrial system capable of loyal and harmonious working as between the various interests concerned ; if we can use all the forces of the central Government to support and aid our commercial growth, there is no reason why we should not achieve in the coming generations an increase of wealth comparable to those of past generations. It is in this way that we shall best reduce the burden of our debt—by increasing the amount of our national income to a point at which the debt will assume moderate proportions compared with the taxable capacity of the community. Whilst these reassuring considerations need to be remembered, there are, nevertheless, certain practical and immediate aspects of the problems of national finance to which some reference must be made.

With regard to expenditure, there is a more or less unanimous consensus of opinion in all sections of the community that all possible efforts ought

to be made to reduce the annual amount of the National Budget, so far as is consistent with the national welfare and security. It is, however, becoming increasingly apparent that the opportunities for any substantial economies are limited, until in the course of time the burdens of debt service and of war pensions become automatically reduced. As the present Chancellor of the Exchequer has more than once pointed out, that part of our expenditure within which economies are possible is a limited one, having regard to the obligations which the State has assumed, and can with difficulty disavow. Within this area every possible economy should naturally be made ; but meanwhile we cannot expect to achieve any startling results in this field.

With regard to taxation, recent years have brought about considerable experiments in the realm of indirect taxation, particularly in connection with commodities of a luxury or semi-luxury character, with a view to an increase in the flexibility and productivity of the revenue. The income in the beer and spirits duties, for instance, the silk tax, the betting tax, and the like, have been devised with this end in view. This course seems to have been a wise one, calculated to raise revenue without considerable ill-effects upon

industry as a whole or upon the standard of living of the people. How far these new taxes will be productive of revenue is not yet in every case established. But in view of the financial straits of the time, we believe them to have been justified. Direct taxation, on the other hand, seems to have been regarded by successive Chancellors of the Exchequer partly as productive of revenue, or partly as quasi-punitive in character. So far as the latter point is concerned, although it is true that some of the discontent amongst the working classes in this country at the present time is undoubtedly due to a widely-held belief that half the national income goes in rent and interest to a few owners of property, this fact has been exaggerated.

Statistics are difficult to obtain on this subject, but it would obviously be in the public interest to enlighten those who think that the distribution of wealth as between those who work and those who do not is radically unfair and unsound, by providing them with accurate information based upon the facts of the situation. It seems to us that if this were done, and at the same time an educational campaign were instituted to point out the vital necessity of an adequate supply of capital for the conduct of modern industry, and the consequent

advantages to the nation of individual saving, a great deal of misunderstanding would be cleared away.

That the private investor is not only an essential but an eminently desirable element in society cannot seriously be disputed. Some months ago Mr. Runciman published a series of interesting and impressive figures relating to the number of such investors in this country. This is the sort of information which might profitably be procured and disseminated by the State, for full knowledge on the part of the public as to the number of 'Capitalists' in existence and the amount of their savings would dispel many an illusion.<sup>1</sup>

If, as a result of a careful investigation of the facts, some glaring anomalies in the distribution of the national income were revealed, attempts could then be made by the State to diminish them. But we believe that this can far better be done by encouraging the spread of private ownership in every form than by confiscatory taxation of existing owners. At the same time it is not wholly true to say that direct taxation affects prices, or that it is passed on by the taxpayer to the consuming public. There is no doubt

<sup>1</sup> See Note III. The ownership of British industrial capital.

that the effects of direct taxation upon industry as a whole have been enormously exaggerated. The main causes of the present industrial depression are to be found in the currency deflation of 1919–1925, in the impoverishment of the world and consequent lack of foreign markets, in the burden of rates upon certain classes of industry, and in the atmosphere of antagonism between Capital and Labour which has prevented the full exploitation of the assistance which applied science can give to effecting cheap production. By comparison with these, the effect of a high rate of income tax and death duties has been small. It does of course reduce the amount which can be placed to reserve or devoted to new projects. But compared with these major causes it is negligible. Indeed, it is, as we shall argue in following section, devoted to the question of Local Taxation, the duty of the Government to face even the obloquy of an increase of direct taxation in order to carry burdens upon a national basis which are at present borne locally and have, in our opinion, a far more damaging effect upon the great producing industries of the country.

NOTE.—The whole question of the incidence of national taxation and the effect upon trade and industry has recently been investigated by the Colwyn Committee.

## FINANCIAL POLICY

### 2. LOCAL FINANCE

THE policy of successive Chancellors of the Exchequer has naturally been to reduce the burden of national taxation. But there can be no doubt that this has been done to a considerable extent at the expense of the rates, which, being in effect a tax on fixed capital as against profits, fall upon industry with a far heavier hand than direct national taxation, and throw the heaviest burdens upon the worst-hit industries in areas suffering from the blackest depression.

The rating system is essentially a survival from Elizabethan days and ignores two cardinal principles of taxation—equality of burden and knowledge of responsibility. The main justification for its existence to-day is the axiom that it is unsound for anybody to spend money which that body has not itself had to raise.

In the year 1925–26 no less than £147 millions was raised by local taxation, a large proportion

of which was levied to meet expenditure on duties which have been imposed on localities by Parliament.

The very proper insistence of the national authorities that Unemployment Insurance, so long as it aspires to be insurance and not relief, must be administered in a way which conserves the principle of insurance and protects the rights of the contributors, is week by week automatically involving an increased charge upon the local rates. In an industrial town in the north-east of England, to give one example, whereas in the week ending on April 3, 1926, 5159 persons were relieved, at an expense to the ratepayers of £2100; in the same week of 1925, 4100 persons were relieved at a cost of £1590. The additional number is about 1000 persons and the increased cost about £575, or about 12s. per person. It will be seen, therefore, that this is not a case of an extravagant scale of relief or improper administration. It is the result of a more strict enforcement of the regulations governing the payment of benefit, under the Unemployment Insurance Scheme, upon a town in which the percentage of unemployment is abnormally high owing to the grave depression of the local industries. The week in April has been chosen as an example in

order to avoid the comparison of a more recent week with a corresponding week in 1925, since the effects of the coal stoppage would vitiate the calculation. It may, however, be pointed out in passing that this stoppage has thrown an additional and staggering burden upon those localities which depend largely upon the heavy industries.

Now, in considering the various items of expenditure, it is clear that there is no logical distinction in their incidence. Some, such as the expenditure on Poor Law relief, are burdens imposed upon the locality by law for the discharge of which the locality is wholly responsible. Others, such as the cost of education, are burdens which are supported by a percentage grant from the Exchequer. These duties are in some cases of ancient origin, in others of quite recent date. The development of our experiments in social services has, like all our other developments, been a natural and intermittent growth. There has been no uniform and consistent system conceived by a single mind and forming a logical whole. Accordingly, when the national conscience has from time to time felt that the provision of some service, such as free education, was desirable, Parliament has devised the finance and adminis-

tration of the scheme in the manner that at the time seemed the most practicable, and that would involve the smallest change in established methods.

So much for expenditure. But when we come to consider the methods of obtaining revenue, we are struck at once by an extraordinary contrast between our national and local systems. The former is variable, supple, progressive. The latter is constant, rigid, reactionary. National budgets are raised on a modern, local on a medieval, basis.

Broadly speaking, national revenue is raised partly by indirect taxation on certain commodities which, while of wide general use, cannot be called absolute necessities of life, and partly by direct taxation of income and, in the case of death duties, of accumulated capital.

National revenue is thus clearly raised by a system which admits of almost infinite variation and gradation. It is a system capable of the most scientific treatment. It can be made, by an easement here and an alteration there, to adapt itself to changing conditions and changing political conceptions of the general good. It is an instrument of the greatest flexibility.

Local taxation is raised by a charge, not upon actual income or actual profit, but upon the

assumed potential income or potential profit-producing value of land. It dates from a period when the rental value of land was almost the only form of taxable income available.

It is a system of taxation of the most rigid type. It is incapable of adaptation to local needs or changing conditions. It is crude, helpless, and often oppressive.

In the great industrial centres this burden falls mainly on productive industry. The large works are the large ratepayers. The rates are charges, not upon the profits of industry, as in the case of income tax, but upon the article produced at an early stage. They are a first charge. Like wages, or debenture interest, they must be paid. They cannot, like the dividends which ordinary shareholders hope for wistfully, but in few of our heavy industries have received for some years, be quietly 'passed', with a regretful speech from the chairman and pious hope that they may be paid next year.

The problem, of course, would be relatively unimportant if the whole country were divided into homogeneous areas. It would make comparatively little difference whether the total revenue was raised nationally or locally if all localities were of a precisely similar character.

There would still, of course, be anomalies. There would remain the injustice between individuals ; an injustice which the medieval system of local taxation has made very real in an age when the occupation of a large acreage of assessable land, whether in town or country, is by no means a good test of the taxable capacity of an individual or of a trading concern. The problem, however, would not be pressing ; the injustices would not be intolerable. The anomalies would, like many other anomalies in an old country, be subjects of interest and curiosity. They would not claim, as they do to-day, for removal by wise and enlightened statesmanship.

In ancient times, no doubt, the parishes into which the country was divided were roughly of the same character. The rural parishes each boasted the presence of squire, parson, tenant-farmer, labourer. The small country towns each had their complement of doctors, lawyers, shopkeepers, and the like. And even where in the large towns these conditions did not altogether exist, the sums raised for social services were so comparatively small that the difficulty of raising them never became oppressive.

That homogeneity of the local unit has entirely disappeared. There are areas, such as Poplar,

West Ham, and others, where there are very many poor people living and very few rich people. There are other areas where the residents are in the main members of the well-to-do classes. In London, the absurdity of the situation, if unrelieved, has led to the adoption of a wholly different method. The Equalisation of Rates Fund of London has introduced a system unique in the country, and in many respects revolutionary. It has overcome to a very great extent one of the main objections to the local system of taxation.

If this variation, as between poor areas and wealthy areas, were the only difficulty to be solved, it might appear that an extension of the principle of the Equalisation Fund would prove the solution. Indeed, the basis of Mr. Neville Chamberlain's scheme for Poor Law reform is the increase of the areas of responsibility and administration by making the county borough and the County Council the authorities upon whom shall lie the duty of relieving the poor. But, in fact, this variation goes far deeper than as between rich and poor areas. By our system of trade, and owing to the method in which our great industries have been built up—based, of course, upon geographical and geological reasons—there are nearly always found collected in one area certain trades

all of the same character. For instance, there are the agricultural areas, whose difficulties have been to some extent met by the Road Fund and by the various Agricultural Rates Acts; similarly there are the textile areas, the coal-mining areas, the shipbuilding and engineering areas, and so on. When, therefore, there is a slump in the particular type of industry on which a given area largely depends, that area suffers an undue burden for the time being. And the burden becomes progressive. In the town on the north-east coast for which the figures of Poor Law relief were given above, one industrial concern rated at some thousands a year has been in liquidation, and another great concern, allied to it, is also bankrupt. Two shipyards are standing idle. Therefore there are two processes at work concurrently. Local expenditure on the relief of the poor increases, and the assessable value of the town from which money has to be raised decreases. The vicious circle is complete. And every time works are closed down, the basic costs of manufacture in the plants, which are still operating, are automatically increased by the amount of additional rates which will have to be paid to meet the deficiencies caused.

There are, therefore, two causes which have

destroyed the homogeneity of the areas of local taxation. First, the division into rich and poor areas. This may, perhaps, be overcome to some extent by an increase in the size of the areas to county boroughs and counties. Second, and far more serious, we find certain trades which are liable to great fluctuations collected in one particular part of the country, and subject, in periods of slump, to wholly intolerable burdens.

This serious problem calls for the immediate attention of the Government. A solution is not, indeed, easily to be found ; but there are certain lines of investigation which may prove fruitful. As regards the unequal incidence of local taxation between individuals, it might be possible to give power to local authorities to raise revenue on an income basis, instead of on a basis of rateable value. But the practical difficulties of such a revolutionary change seem almost insuperable. While theoretically it might be possible to constitute local authorities, such as County boroughs and County Councils, as revenue-raising bodies not dissimilar from the states of the American Union or the provinces of Canada, yet in point of fact there would be enormous complications if such a course were pursued. In the small compass of these islands it is probably inadvisable to

allow more than one authority to raise direct revenue upon a basis of income tax. Nor do we believe that Parliament would ever be willing to devolve upon lesser bodies such considerable powers.

It would also be possible, as has already been indicated, to increase the sizes of local areas and, by the simultaneous introduction of the ‘block grant’ principle, to develop in the county generally some equivalent to the equalisation scheme already operating in the London district. But the limitations of this method of dealing with the serious evils of our present system of local taxation have already been demonstrated. We do not believe that this method will go to the root of the problem ; it necessarily demands even more drastic treatment.

It will, we believe, be found simpler and more effective to nationalise altogether certain services, and by this means to relieve the pressure of local rates, even if this course involves the increase of direct taxation levied on a national basis. Such a course would naturally involve the central control of the services so dealt with, and probably, though not necessarily, central administration. It would be, in the opinion of some, a retrograde and even dangerous step, but it would achieve

the desired result of relieving industry to some extent from a burden which is most oppressive, and it would carry with it at the same time some substantial advantages.

In the first place, from the purely administrative point of view, there is at present a real danger of local government being overweighted. The tendency of all modern legislation is to impose steadily increasing responsibilities upon local government. Up to now the County Councils and the County Borough Councils have proved economical and effective instruments of government. They have attracted the unpaid and devoted service of some of the best of our citizens. But there is a very real danger of the work of these authorities becoming excessive. The suggested reform of the Poor Law will necessarily mean increased responsibilities for these authorities ; and we have to guard against the unfortunate result that the useful and cheap services which the State has up till now enjoyed from those who serve upon these bodies, will be no longer available if the work entailed increases beyond a certain point.

Secondly, the present system of administration in certain services is necessarily confused and wasteful. Division of power—the system of

dyarchy—cannot be really effective or really economical. We believe that the centralisation of certain services would prove a real economy, partly by the increased efficiency of administration and partly by the reduced overhead charges which would result.

The police services, for instance, might easily be brought under a single control, and paid for out of the national exchequer. Economies would almost certainly follow the adoption of such a plan, and the relief to local rates would be considerable. Our education system, the administration of which is admittedly in a state of considerable confusion, might also be nationalised. This service is one of the most serious of the charges upon local funds, and a good deal of duplication of effort goes on at the present time in its administration. We ought to face the necessity of increasing national taxation—especially direct taxation—if by this means we can help industry to escape from a form of taxation which is more hampering to its effectiveness than income tax is likely to be. The alarming tendency of the times, when one might almost maintain the paradox that business is profitable to-day in inverse ratio to the number of men employed and the quantity of assessable land

occupied, needs searching investigation and drastic remedy. It will be better to tax profits which are actually made by a high income tax, instead of preventing the possibility of profits by high rates.

The interests of the producer will, we believe, be better served by such a course. Moreover, the overlapping caused by our present system of local administration is unnecessarily expensive. It often happens that under the system of dual control, which, for instance, is the basis of our educational methods, two sets of inspecting officials are operating over the same ground, responsible to different authorities. If, on the other hand, it should appear that a policy of complete centralisation of these or other services is too drastic ; if it seems, upon balance, that the advantages of local administration outweigh its undoubted disadvantages, then an alternative policy is still practicable. There is nothing to prevent the State assuming a greater degree of financial responsibility and yet leaving the present dual system of management undisturbed. The greater the proportionate contribution of the State, the greater its claim to ultimate authority in expenditure ; but at the same time there is nothing sacred about the 50 per cent grant as

such. It would be quite possible to increase the proportion of the State's contribution without interfering with the present system as regards administration. Such a change, far less revolutionary than a policy of complete centralisation, would be perhaps easier to accomplish. All that we are concerned with at the moment is that Parliament should seriously consider some re-organisation of the present system in order that the incidence of taxation may be readjusted. Such a reform is urgently needed, not only because of its intrinsic justice, but also in the interest of those industries which have suffered and are still suffering from the severest effects of the long period of trade depression.

## FINANCIAL POLICY

### 3. CURRENCY AND CREDIT

THERE is probably no part of the nation's economic life at once so universal in its influence and yet so little understood as monetary policy. It is a subject about which experts differ widely, and we accordingly approach it with extreme diffidence, emboldened only by its evident importance and by the belief that much depends on a careful co-ordination of Government action to industrial needs in matters of currency and credit.

Every one is familiar to-day with such terms as trade cycles, price levels, inflation, deflation, and depreciated currencies, but it is only since the war that they have been the subject of such general discussion. In former times economists speculated on these questions, but movements were so slow or so small, and detailed scientific observation of such comparatively recent date, that the effects of monetary policy were either

unrealised or ignored. Under the present unstable conditions it is felt to be an urgent necessity to understand, and if possible to control, the fluctuations of currency and prices with which monetary policy is concerned.

The relationship between credit policy and prices is governed by the Quantity Theory of Money—that under certain given conditions the price level determines the amount of cash required by the community.

Provided the general rate of production, the velocity of currency circulation, and the prosperity of the community remain unchanged, the real value of all the paper money in circulation remains unchanged, irrespective of the number of units issued.

Therefore with a given volume of goods and services the value of cash decreases in relation to them in proportion as the supply of it is increased, and consequently prices rise. If the goods and services increase and the supply of cash does not, then the competition is transferred from buyers to sellers and the price of the goods or services consequently falls. If the normal expansion of goods and services is accompanied by a proportional increase of purchasing power, the increase represents new wealth

and the general level of prices remains steady. (This of course applies to the community taken as a whole and does not affect the separate question of how this new wealth is distributed or how alterations of particular prices may affect particular people.) Money is not merely an abstract and absolute standard of measure. Because people have felt that anything so arbitrary would not be safe from human manipulation, it has been the general practice to base the money standard on a commodity, and usually gold has been chosen as that least likely to vary or be varied. In practice paper money (usually but not invariably convertible into gold) is used and must be regulated by statute. The quantity of money is subject to arbitrary change. If the ratio of money to goods and services is increased there is inflation ; if it is decreased there is deflation. We all know that the inflationary process of increasing the amount of currency in circulation, or of encouraging borrowing by a low rate of interest, tends to depreciate the value of our money in relation to that of foreign countries, thereby making our goods cheaper abroad and stimulating export trade, while at home it increases the money value (*i.e.* the price) of goods and thus encourages production. A gold

standard prevents the depreciation of the exchanges, but only at the cost of causing exports of gold. Inflation may be regarded as a creation of money in anticipation of an increase in production which the increase in money itself helps to bring about. Everything, however, depends on the anticipation being realised. If production does not keep pace with the increase of money the value of money falls, and to save the gold standard some of it has to be withdrawn before the balance is restored. This is done by deflation. The normal instrument of deflation is an increase in the rate of interest on short-period indebtedness, the immediate effect of this being to deter traders from holding stocks of commodities with borrowed money. Sales are accelerated, with a consequent reduction of prices, and fewer orders are given to producers for the replenishment of stocks. The raising of the rate of interest is only one method of curtailing the volume of credit, and it does not precede, but follows a general rise of prices. A rising price level stimulates demand, and involves an increase in advances to business men by the banks. It is only when it becomes necessary for the latter to decrease their liabilities and safeguard their reserves that the deflationary process begins to be applied.

A rise in the market rate of discount has an immediate effect upon demand, partly because it increases the cost of borrowing, but chiefly because it threatens the level of prices.

When it is known that the object of a change of rate is to bring down prices, the merchants at once check their purchases, and consequently prices begin to fall.

Considering that the rate of interest on private savings invariably moves in sympathy with the rate of discount, it will be seen how great a potential force the rate of discount is. The argument that a mere extra payment of 1 or 2 per cent on borrowed money has little practical effect upon producers is fallacious. For it is not the actual increase in the rate that matters, but its effect upon the merchants, and what it signifies —a fall in prices, diminution of output, and depreciation of assets in comparison with liabilities.<sup>1</sup>

During the period 1920–1922 deflation was carried out in Great Britain of sufficient intensity to reduce prices by half. In the first year of the slump, prices fell about 40 per cent (128 points)

<sup>1</sup> As Mr. Keynes has pointed out in his *Tract on Monetary Reform* (Macmillan), in Germany a bank rate of 100 per cent per month was inadequate at the height of the inflationary period. Whereas when prices are falling 30 or 40 per cent per annum, a rate of 1 per cent is too high.

and the percentage of unemployment increased from 2·7 to 17·8. At the same time the balance between national income and national debt was completely upset. The debt charges and pensions, as measured in terms of wholesale commodities, increased by nearly 100 per cent between March 1920, when the index figure stood at over 300, and February 1922, when it was in the neighbourhood of 160. The claims of the "rentier" class—for instance holders of War Loan—upon the rest of the community were almost doubled. But the national income, measured in terms of wholesale commodities, remained practically stationary during that period. It therefore seems superfluous to seek out other causes of the industrial depression and unemployment by which we have been afflicted; and it says much for the inherent resources of this country and the fundamental strength of its industrial machinery, that it has been able to survive so drastic a process. We do not propose, nor are we qualified, to discuss the merits or demerits of a gold standard, and shall content ourselves by observing that a monetary standard which commands the absolute confidence of the investor is an essential condition of willingness to save, and therefore of capital increase.

The disastrous effects of price fluctuations are, however, generally recognised. Both inflation and deflation inflict immeasurable injury on the community, and both are unjust because they arbitrarily alter the distribution of wealth between different classes; the former to the advantage of the “entrepreneur” or producer, and the latter to that of the “rentier” or investor.

The example of Germany brought home to the general public the evils of inflation in a spectacular manner. An inflationary policy being in effect a confiscatory tax on the “rentier” classes, not only diminishes capital and destroys confidence, but, carried to its logical conclusion, involves the country in which it is applied in complete social and economic collapse. Deflation, on the other hand, through its effect on production, may be almost as detrimental to the national prosperity as inflation, upon which it is consequential.<sup>1</sup> Finally nothing is better calculated to disturb industrial relationships than instability of prices, which practically nullifies all wage agreements. Every change in the price level brings in its train a whole crop of grievances. During a period of rising prices and consequent substantial profits, the purchasing power of the

<sup>1</sup> For effect of price instability upon agriculture, see Note I.

unit of currency falls, and real wages therefore decline in value. This immediately leads to a succession of demands for higher wages by the workers, and not infrequently to industrial disputes on a wide scale.

When prices are falling it is the employer's turn to feel aggrieved. His profits are steadily reduced in proportion to his costs, and wages remain high although their real value is increasing. Demands are therefore made for a general reduction of wages, and are inevitably resisted because the cost of living has not come down. This is due to the lag there must be between any change in the level of prices and the necessary economic adjustments (including an alteration in wage rates) which must be made in order to restore the balance between prices and costs.

To control trade and price fluctuations it is necessary to secure *a uniform rate of expansion in industry as a whole*. This is largely governed by credit policy. And it will therefore not be disputed that the power to extend or restrict the supply of currency and credit can have very far-reaching effects upon trade and industry.

In this country this power is in the hands of the Treasury and the Bank of England acting together, and from the political point

of view, whence alone we feel justified in approaching the question at all, the whole problem lies in determining whether the relations between the two are such as to enable monetary policy to be carried out to the best advantage to the community. The Treasury, with all the power of Government behind it, with its part in the collection and disbursement of national revenue and expenditure, with its duties of handling the funded and floating debt, and with its currency responsibilities, has a pre-eminent financial influence. Government borrowing may expand purchasing power, and raise prices.<sup>1</sup> The Bank of England, in its turn, has a peculiarly strong position in relation to the money market by its control over the market rate of discount and its holdings of substantial portions of the cash reserves of other banks. In conjunction with the Treasury the Bank of England can artificially regulate the available supply of cash.<sup>2</sup> By selling securities and assets it can draw cash to itself and compel the money market to borrow from it on its own terms, thus making its rate of discount effective. At the same time it indirectly regulates the general market rate of

<sup>1</sup> See Note II.

<sup>2</sup> It is anticipated that the sole power of note issue will sooner or later be given back to the Bank of England.

discount, for the ordinary banks, who in the last resort are dependent on the Bank of England for cash, cannot afford to lend money to the public at a lower rate than that at which it can be borrowed from the Bank of England, so that the market rate always conforms very closely to the bank rate. The Bank of England can reverse the process by purchasing securities, thus increasing the supply of cash to the market, and by lowering its own discount rate. Given adequate power over the ordinary banks such as it either possesses or seems in process of acquiring, and given sufficient and accurate economic information, which should be available to it from the best public and private sources, the Bank of England in conjunction with the Treasury should be in a position to secure such internal stability of prices as is humanly possible.

This position apparently does not satisfy Socialists, who demand the national control of credit and the nationalisation of banks. We have tried to show that under existing conditions currency and credit already are and might still further be controlled in the national interests. We fear that the effect of the Socialist demand would be to open the way to a danger at least as great as the power of the financiers against whom

it is directed. For experience shows that the complete political control of finance would be just as disastrous as the political control of productive industry. Governments are always subject to the temptation of ignoring banking principles and of using their power to print currency notes and other methods of inflation in order to cover up budgetary deficiencies or otherwise strengthen their position. In the end there comes a crash, but there is always the hope that some one else may be in power to take the blame. These things have actually happened recently in Europe, when excessive inflation has not been due to the voluntary action of central banks but to that of Governments.

Certain of the schemes which have been put forward from time to time by the Labour Party could only be carried out by means of currency inflation, and one is forced to the conclusion that it is for this reason that so much stress has recently been laid upon the necessity for 'nationalisation of the Banks' and the 'State control of credit' by the more advanced type of Socialist.

But although we believe that the present relation of the Bank of England to the Treasury is sound in principle we do not venture to maintain

that it is unassailable in detail. A considerable body of expert opinion is not altogether satisfied with the system under which the Bank of England operates at present, based upon the terms of the Bank Act of 1844. Mr. McKenna, for instance, in a recent speech to the shareholders of the Midland Bank, put forward the view that this system is too rigid for the modern requirements of trade and industry. He advocated the placing of the Bank of England on the same reserve basis as the Federal Reserve banks of America. The object of this is to give the bank a higher reserve than it has to-day with the same amount of gold.

We need [he continued] careful and expert consideration of the theoretical basis and practical technique of our credit and currency system, including the position of the Bank of England as the central institution and custodian of our monetary resources. No time is too early for this, but the present is peculiarly opportune by reason of the necessary revision of the bank charter involved in the projected amalgamation of the note issues.

It appears to us that a Federal Reserve system in this country would enormously increase our difficulties, should it become necessary to restrict credit and currency supplies. But it would be of advantage to the State if an inquiry of the character suggested by Mr. McKenna were held,

where experts holding different views might be freely heard, and by means of which a solution to what is admittedly a difficult and complicated problem might be found.

One final point. If gold is to be the basis of the currency systems of the world it is essential that its value in terms of other commodities should be kept as far as possible constant.

With the various proposals for the international regulation of the value of gold we do not propose to deal.

The famous Currency Resolutions of the Genoa Conference recommended a conference of representatives of the Central Banks (to be summoned by the Bank of England), to develop the practice of continuous co-operation among Central Banks of issue, or banks regulating credit policy in the several countries. They pointed out the danger of "simultaneous and competitive efforts of countries to secure metallic reserves", and recommended the establishment of a gold exchange standard.

The principle of the gold exchange standard is that the currency of each participating country, instead of being convertible into gold, may be convertible at par into the currencies of the others. To secure convertibility, the participat-

ing countries will hold reserves of ‘approved assets’ in one another’s currencies, and will undertake to buy and sell such assets freely for their own currencies.

Certain of the participating countries must establish a free market in gold and thus become gold centres, at which gold reserves will have to be maintained.

It is necessary, as we have pointed out, to stabilise the value of gold in terms of other commodities, if it is to be used as the basis of any currency system, and accordingly it is laid down in the eleventh Genoa resolution that “credit will be regulated, not only with a view to maintaining the currencies at par with one another, but also with a view to preventing undue fluctuations in the purchasing power of gold”. This is fundamental, because if most of the principal countries of the world stabilise the value of their currency units in terms of gold, it will be desirable not only to control the absorption of gold for currency purposes, but also to secure that the value of these units in terms of commodities varies as little as possible.

We are primarily concerned with the disastrous effects of shifting money values upon production, and upon industrial relationships, and believe

that the question of the prevention of price fluctuations is perhaps the most fundamental of all the economic problems confronting this country to-day. Modern capitalism, as Mr. Keynes has pointed out, precisely because it entrusts saving to the individual investor and production to the individual employer, *presumes* a stable measuring-rod of value, and perhaps cannot survive without one.

It is not here maintained that the gold exchange standard is either the only way or necessarily the best way of achieving the desired end. But it is to be hoped that an international conference of the kind envisaged at Genoa may be held as soon as it is practicable, with the object of reaching some agreement as to the methods which should be adopted in order to achieve a measure of stabilisation amongst the currencies of the world. In the meantime the Bank of England and the Federal Reserve Bank of the United States are in a position to control the situation and to regulate the value of gold; and the closest co-operation between them is essential in the interest of world prosperity.

## **IMPERIAL POLICY**



## IMPERIAL POLICY

THE necessity for economic organisation within the Empire is now generally recognised. Before the war an expansion of Imperial trade was desirable in the abstract, and the subject was treated as an interesting side-show by our manufacturers. But the position has now altered. The era of mass production is upon us. And mass production involves large economic units. Such a unit already exists, in a highly developed form, in the United States of America. Europe is forming herself into another. Russia is, potentially, a third. The isolated position of Great Britain, surrounded by these vast economic entities protecting themselves from the outside world, but with immense internal free trade markets, and with unlimited production capacities, is therefore one of peculiar danger.

Moreover, in two of our greatest external markets of pre-war days—South America and China—we now find ourselves seriously threatened.

With regard to the first, the ever-expanding export trade of the United States finds its nearest and most natural outlet in the southern half of the new world ; and if we cannot hold the trade of our own colonies in the West Indies, it is unlikely that we shall be able to maintain for ourselves the favourable conditions which have hitherto been ours in South America.

With regard to the second, the avowed policy of the Soviet Government is to eliminate capitalist influence in the Far East, in order to establish an Asiatic ' bloc ', based on the principles of Communism and controlled from Moscow. With this object in view they have already succeeded in rendering conditions in China extremely difficult for the conduct of trade.

The successful development of the ' horizontal combine ' in America and Germany is inducing some of our producers and manufacturers to re-organise their businesses along similar lines.

But this applies at present, as we have seen, only to a few industries such as chemicals, coal, iron, and steel. And even in these trades it is difficult to see how we can expect successfully to combine with the European organisations. The best we can hope for is a reciprocal agreement as to markets and prices. For the vast mass of our

manufacturing industries, upon the prosperity of which we all ultimately depend, we must secure and maintain certain and stable markets on our own. Two such await them—the home market, which requires to be consolidated and protected (not necessarily by tariffs), and an Imperial market which has yet to be developed and organised. At present we are inclined to underestimate the potential value of both.

The British Empire can be consolidated into an economic unit infinitely more powerful in resources and in variety and capacity of production than any other unit in the world. It is capable of providing Great Britain with all the raw materials and foodstuffs she requires. Yet of the latter, amounting in value to between five and six hundred millions sterling per annum, not more than 40 per cent is produced within the Empire.

On the other hand, throughout the recent depression our exports to Europe and Asia have steadily decreased, whilst those to the Empire have as steadily increased until they now represent over 40 per cent of our total export trade.<sup>1</sup>

<sup>1</sup> Mr. F. L. McDougall, C.M.G., Australia's representative on the Imperial Economic Committee, recently gave some interesting figures relating to Empire trade.

In 1926 the total export trade of Great Britain decreased by £104,000,000, but our exports to the Empire only decreased by £18,000,000. The non-British American continent, with a

We are not suggesting that nothing is being done to meet the problem, only that there is still much to do. The development of the Crown colonies has been strenuously taken in hand and considerable progress has been achieved in this sphere since the war. The guarantee by the British Government of a substantial loan to Palestine and East Africa marks the opening of a new era in colonial development, and cannot fail further to increase the supply of raw materials and overseas markets of which we stand in such need. Much more attention than formerly is being paid to agricultural and tropical research. The establishment of the Imperial Shipping Committee, the Imperial Economic Committee, and the Empire Marketing Board is a hopeful sign that for the first time a proper economic survey of the Empire as a whole is to be made.

The last two bodies may possibly be merged

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population of 207 millions, took 17·7 per cent of our exports, while the five self-governing Dominions (excluding the Irish Free State), with an aggregate population of 24 millions, took 22·8 per cent. Six million Australians bought a higher percentage of our exports than the 60 million inhabitants of South America, despite the advantages we possess and the capital we have invested in the latter country.

Finally, the Dutch East Indies, with a population of 49 millions, took 1·4 per cent of British exports as against Ceylon and Malay (8 millions), who took 3·2 per cent.

and strengthened in the course of time. The terms of reference of the Imperial Economic Committee might be enlarged so as to make it responsible for the co-ordination of Imperial effort and the evolution of schemes for the development and organisation of the Empire as a whole. Adequately to fulfil this function it may become necessary for this committee to be given not only wider terms of reference but considerable executive powers, subject of course to the supreme authority of the Imperial Governments. It should also have a permanent secretariat of its own, adequate to its needs.

In dealing with this whole problem of Imperial development it must always be borne in mind that the increase of the purchasing power of the Empire for British manufactures—always desirable, now vital—depends not only on an increased population but on the existence of markets for Empire products. General Smuts went to the root of the whole matter when he said in 1923: “ You cannot fairly claim that the Dominions should in very large numbers take migrants from these islands and at the same time refuse to help the Dominions in taking the produce of the work of their hands ”.

It is clear that the small preferences now

granted to the Dominions do not meet the requirements of the case. Sooner or later a scheme much more ambitious in scope and aim will have to be attempted.

The formation of an Imperial Customs Union or ‘zollverein’ may appear a Utopian dream, but there are signs that some people, at least in the Dominions, are gradually recognising that the policy of nationalist protection is unlikely to succeed, because the unit of production is too small and cannot in consequence be self-contained. In this country there is a disposition on the part of many people to regard the question as a matter of economics rather than a political issue. Any arrangement involving preferences will, in the future, have to be based on reciprocity. But if our people can be convinced that a reduction in Dominion tariffs for certain of our manufactured products would expand our markets and reduce unemployment, they might well agree to the imposition by the home Government of certain duties to divert the production of at any rate some raw materials to within the Empire as a ‘quid pro quo’. Indeed the issue, presented on purely economic grounds, and divorced from merc party politics, is one upon which the British electorate has never been asked for a decision.

There can be no doubt, however, that a tax on imported foreign foodstuffs would be regarded with grave misgivings by the vast majority of the people of Great Britain.

No Government would have the temerity to suggest such a course in the immediate future, and, if it did, it would be speedily disillusioned. Yet some method of dealing with this question will have to be devised if the Empire is to be organised as a compact and independent economic unit, for foodstuffs form, after all, the basic produce of all the Dominions.

Bearing this in mind, the present Prime Minister, Mr. Baldwin, in the course of a very remarkable speech delivered in the House of Commons on June 18, 1924, made the following pregnant observation :

If, for the moment, the country will not take certain courses of action, we must try to find others. Is it not possible to enter into some arrangement with the Dominions by which the enormous amount of foodstuffs we require to-day may be obtained solely from them by bringing them into this country at cost price, and distributing them with the least possible margin ? Cannot something of this kind be thought out to obtain in exchange for it the free entry of our manufactured goods into those Dominions where such goods do not compete with their own ?

This leads us directly to a study of what has become known as the 'stabilisation' policy. No policy of this kind can be rendered effective without some form of control over imports, and the problems and difficulties which it raises are, in consequence, formidable.

In dealing with this question four considerations present themselves. The first, to which reference has already been made, is the desirability of organising the Empire as a single and self-supporting economic unit. The second is the importance of organising scientifically, with adequate reserves, the food supplies upon which we depend for our existence. The third is the impossibility of allowing the control of all imports of wheat or meat into this country to be vested in a private monopoly, without some measure of Government supervision. The fourth is the necessity for preserving our own farmers as far as possible from fluctuating prices over which they have little or no control and which have been primarily responsible for reducing agriculture in this country to the parlous condition in which it finds itself to-day.

The widespread growth of the co-operative movement at the present time is one of the most significant indications of the general world

tendency away from unfettered competition and towards combination.

Attempts are being made by producers to control both the volume of production and prices, simply because they can no longer afford to allow themselves to be bedevilled at every turn by violent fluctuations. The producer in a basic industry must be able to contract ahead and know more or less what sort of price he is going to get for his wares if he is to be able to carry on at all under modern conditions.

In a word, he wants stability—the watchword of the present era.

The development and expansion of what is known in the United States as ‘orderly marketing’ has been remarkably rapid during the past few years. An indication of the extent of its growth may be gleaned from the fact that the annual value of produce marketed through centralised co-operative associations in America alone exceeds 2200 million dollars.<sup>1</sup>

<sup>1</sup> The Reports of the Linlithgow Committee and the Committee on Stabilisation of Agricultural Prices attach great importance to co-operative marketing of agricultural produce in this country. The latter recommends that the State should be prepared to give “a measure of assistance” to co-operative societies, and subsequently observes, at paragraph 110 :

“ We have spoken above of the two functions which collective marketing can fulfil—stabilising prices on the one hand and economical grading and packing on the other. It would be

But from our own point of view it is more important to realise the extent to which producers, pools, and control boards have already been developed within the Empire.

To take Australia first. The Commonwealth Government has adopted the principle of compulsory organisation for export, and Acts have been passed constituting a Commonwealth Dairy Export Control Board and a Commonwealth Dried Fruit Export Control Board. There are, further, three wheat pools, representing Victoria, South Australia and New South Wales, and Western Australia, in respect of each of which there is established a Wheat Board responsible for the purchase, collection, storage, financing, shipping and marketing of the grain. These pools are not at present compulsory, but the purchasing agents are under the control of the State Govern-

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hardly within our reference to discuss the latter aspect of the question in detail. We may, however, say that we believe the adoption where practicable of the practice of efficient grading and standardisation would contribute to greater stability. There cannot be any doubt as to the substantial benefits which systematic grading has conferred upon Danish agriculture; and the adoption of statutory grading and testing in respect of exported produce in Canada, Australia, and New Zealand has come about, we believe, because it has been recognised to benefit the producer. We therefore think that in considering any steps which might be taken by the State to foster co-operative marketing in this country attention should be paid to the question of promoting grading, either by legislation or otherwise."

ments concerned. The grain exported to the United Kingdom is distributed by special agents in London. In Canada the growth of Farmers' Wheat Pools in Saskatchewan, Manitoba, and Alberta, culminating in the formation of the Canadian Co-operative Wheat Producers, Ltd., with headquarters at Winnipeg, is a fascinating story.

To-day the company controls 70 per cent of the total wheat crop of the three prairie provinces, and has a string of 125 country elevators on the prairie and three mixing-houses at the head of the Great Lakes. Its most recent enterprise is the construction of a grain elevator at North Vancouver with an ultimate capacity of 2,225,000 bushels.

The formation of these organisations was facilitated in the initial stages by the assistance they received from the State, the province advancing 85 per cent of the share capital required on particularly favourably terms.

Eight of the chartered Canadian banks agreed to provide twenty-five million dollars for the purpose of financing the inter-provincial wheat pool.

New Zealand has gone farthest of all, the meat, dairying, and fruit trades each possessing statutory

control boards, vested with large powers by the State.

The Meat Board<sup>1</sup> has been functioning longest and has proved very successful. It consists of five persons elected by the meat producers, two appointed by the Government, and one appointed by the stock and station agents, and its present activities are mainly concerned with the control and inspection of the system of grading and with the regulation of shipments.

The Dairy Producers' Board has gone further than the Meat Board, having assumed absolute control of the Dominion's exports of butter and cheese, the annual value of which amounts to nearly £20,000,000. The object of the Board is "to prevent the glutting of markets, to effect economies in the cost of marketing, and to prevent manipulative speculation".

The South African Parliament recently passed

<sup>1</sup> The Royal Commission on Food Prices reported of this Board :

"The existence of the Board introduces a new factor into the imported meat trade, which may have very important consequences for this country. Under their existing statutory powers the Board may at any time establish an effective monopoly for the sale of New Zealand meat in the markets of the world. For this reason we think it is essential that *the operations of the New Zealand Meat Producers' Board should be subject to continuous and sympathetic observation by a body representing all interests concerned in this country, such as the Food Council which we are recommending Your Majesty's Government to set up.*"

an Act to constitute a Fruit Export Control Board on lines generally similar to the New Zealand legislation, and other examples of the movement towards centralised marketing in the Dominions are legion. Queensland, for instance, not only permits, but in certain cases compels, producers to market through a central organisation. And such products as fruit, poultry, eggs, cheese, and pigs are all being gradually brought under the system. The methods by which these organisations have been developed vary. In every Dominion State action involving legislation, or financial assistance, or both, has been taken in respect of some of them. But the objective is the same in all cases—the stabilisation of prices, by ensuring a steady flow of produce to market and by creating, if necessary, an artificial lag in economic changes so as to give time for social and psychological adjustments to be made both by producers and consumers, or, if the changes are only temporary, to eliminate them altogether.

Great Britain therefore finds herself confronted to-day not only with a decaying agricultural industry, due to fluctuating prices over which she has no control, but with a rapidly expanding growth of combinations and pools amongst producers overseas, which have not only proved to

be highly successful in action, but which increasingly dominate her home markets. And the question arises, can we afford to allow a state of affairs to continue here which may benefit a few speculative middlemen, but which, by reducing the marketing of agricultural produce in this country to a condition of anarchy, jeopardises the food supplies on which we depend for our very existence? One thing is clear. The only method by which prices can be stabilised and an even flow of agricultural produce maintained into this country and to British markets is by the application of the principle of centralisation to the importing machinery. And this cannot be effected without some measure of control. The arguments against State trading are obvious, and have been well summarised in the Report of the Royal Commission on Food Prices (paragraphs 320 to 333). But the control of imports through a statutory body would not involve 'State trading' in the generally accepted sense of the term. The basis of any scheme designed to reduce fluctuations by averaging out prices over a period must be the principle of insurance, and the co-operation of the producers' pools in the Dominions is essential.

It might be possible, as a start, to devise an

Imperial wheat insurance scheme on the lines of that proposed for British agriculturalists by Major Ruggles Brise. That is to say, an insurance fund, to which the producers' organisations, the Dominion Governments concerned, and the Home Government would contribute.

Or, alternatively, an Imperial Wheat Pool might be set up, with interest and capital guaranteed up to a fixed amount by the British, Canadian, and Australian Governments. The objective of the Pool would be to regulate the flow of supplies to the market and thus steady prices by building up a wheat reserve in years of plenty and unloading it in years of shortage. For this purpose the storage of wheat in granaries either in this country or in the Dominions or both would be necessary. In this connection, even comparatively small reserves involving a carry-over in bumper years of not more than 10 per cent of the total Canadian and Australian harvests would have an enormous effect in stabilising prices. The commercial transactions of the pool could be financed without difficulty by British and Dominion banks, for it would act only as a kind of reserve central institution, not intervening in the market unless prices fell unduly low or were forced up too high by speculative operations.

A much more ambitious scheme was outlined by Mr. Bruce, the Prime Minister of Australia, at the Imperial Economic Conference of 1923. After advocating, for strategical purposes, the establishment of an Imperial wheat reserve, Mr. Bruce went on :

The stabilisation policy to which I am about to refer appears to require for its proper functioning some form of national reserves also. The idea of a stabilisation policy is that a system of Protection and Preference could be brought into effect, without any tariff, to give the maximum advantage to Empire agriculture, and at the same time to safeguard and benefit the British consumer. This is a suggestion for a deliberate policy of the stabilisation of prices of such essential commodities as meat and wheat.

The sources of supply of foodstuffs can be classified under three heads, *i.e.* British, Dominions, and Foreign. It is proposed, under this system, that the British product should be left entirely free and uncontrolled. In other words, the British farmer would be free to continue to market his produce precisely as he is doing at the present time.

The Dominion produce would also be freely marketed so long as the quantity required from foreign sources was sufficiently large to allow the control of the entire foreign imports to effectively stabilise the price of the commodity in question in Britain.

The foreign supplies would be controlled by a National Purchase Corporation for either meat or wheat, the corporation to buy from foreign countries the shortage

between what the British and the Dominion producer could supply and the total requirements of the country.

If these proposals are taken in conjunction with the idea of national reserves of foodstuffs, and if the control of the national reserves were vested in the National Purchase Corporation it will be seen that in the case of, say, wheat the controlling authority would be able to regulate the flow of foreign imports on to the London market in two ways : Firstly, by the amount actually allowed to enter Great Britain ; and, secondly, by the rate at which foreign wheat was allowed into the market from the national wheat granaries. In the event of any shortage of British and Dominion supplies, and a tendency to increase all prices in the market, the National Purchase Corporation would release additional foreign wheat so as to prevent prices from rising. If prices were falling below the figure at which it had been decided to stabilise, the supplies of foreign wheat would be curtailed or temporarily shut off so as to keep the price stable.

The advantages of the scheme seem to be : First, it would involve the very minimum of control ; British agriculture would be left entirely free ; and control would only apply to a certain phase of wholesale business —the actual importation of foreign goods into Britain. The second advantage would be the elimination of fluctuation. In the interests of both the producer and the consumer, fluctuation of price is generally detrimental. Fluctuations only benefit the speculative middleman. When prices soar, the producer rarely receives the full value of the increase, but the consumer invariably has to pay it. A severe fall in wholesale prices is very rarely fully reflected in the retail price to the

consumer, but is always completely felt by the producer. It would therefore seem that stable prices would benefit both the producer and the consumer. It seems possible that a system of this sort, if found workable, might enable us to realise fully all our three objectives.

A scheme of this character would enable us to obtain reciprocal advantages from the Dominions in respect of our manufactured goods, and would therefore be a great step in the direction of the goal now desired by so many—Imperial free trade.

It need not be feared that a centralised marketing board would hold prices too high, because high prices inevitably increase production, and supply and demand must ultimately equate. On the other hand, the Royal Commission on Food Prices reported that unremunerative prices result in a decrease of production, and subsequent high prices.

But the problem is one of enormous complexity. It would probably be thought more advisable to institute a Wheat Import Control Board before extending the system to meat. There are to-day indications, noted by the Food Commission, of the formation in the near future of a milling combine. The directorate of this body might one day form the basis of a statutory board,

working within limits laid down by, and under *general* instructions from, the Government, but free from its direct financial and administrative control.

All we would plead for, at this juncture, is that the whole subject should receive the consideration to which its importance entitles it.

The experience and activities of the Royal Commission on Wheat Supplies during the war ought to be subjected to meticulous examination. In addition to political objections, there are technical difficulties connected with buying and selling on a large scale and the degree of risk involved by errors of judgement. And in any case the opinions of the Dominions would have to be sought and their co-operation obtained before any scheme can be made effective. All these matters should be the subject of impartial investigation by the Imperial Economic Committee.

And above all, let them be kept clear of purely party politics. The economic consolidation of the British Empire is too important a subject to be made the plaything of cranks or the sport of party propagandists.



PART II  
THE OBLIGATIONS OF THE STATE



## THE DEMAND FOR ECONOMIC FREEDOM

So far we have been dealing with industry as a whole, treated impersonally as an economic machinery the essential features of which must continue to exist whoever may actually own or control it. If industry were nothing more than this, our difficulties would be comparatively slight and mostly of an administrative kind. But industry represents, and ought perhaps primarily to be considered as, a vast co-operative human effort. It ministers to our material needs, but it is profoundly affected both by the kind and degree, the quality and quantity, of those needs ; and this involves the hopes and aspirations, the whole outlook and philosophy of men. Although the practical problems with which we have to deal are nearly all to a greater or less extent economic, the method of treating them depends a great deal on the views held about the organisation of society itself.

It is at any rate impossible to sketch out a

constructive alternative to Socialism without touching on what are perhaps rather questions of political philosophy than of practical politics, because Socialism is not concerned with improving existing economic or social conditions but with attacking the whole system under which we live and substituting for it a fresh system based on a theory (as we believe entirely fallacious) of its own. Unemployment, slums, inequality of opportunity, and the rest of our troubles, are for the Socialist not the avoidable ill effects of a right system but the inevitable effects of a wrong system. Because he sees a major proportion of property in the hands of a minority of the community enabling them (as it appears to him) to "live by owning and not by working" he concludes that private property is wrong. He is therefore faced with the alternative of refusing support to improvements in the present system on the ground that only by allowing its destruction can his own system be inaugurated, or of condoning action whose only effect is to make the system he thinks wrong more tolerable and thus more difficult to get rid of. The first is the perfectly logical view of the revolutionary, but is fortunately not widely held; the second, which is the attitude of more sensible Socialists, exposes the weakness of the

whole position. For once you admit that you can get what you want by amending the present system (however drastic the amendment may be) you must abandon the contention that the system is fundamentally wrong. That those who have an inadequate share in the ownership and management of the national wealth have a very real grievance few will deny. But it seems to us that the elimination of the capitalist is no solution. While competition exists, as it does in fact exist, and while success in competition involves a willingness to take risks, the private capitalist, whether employer or investor, is a necessity. Nationalisation as a substitute for private ownership must fail, for two reasons. In the first place, a Government department, just because it is a Government department and the executive of the general will of the nation, cannot take the same risks as an individual responsible to himself alone. Therefore, except where competition and risk are absent, the results of nationalisation must be inferior to those of private enterprise, so that, while there may be particular cases where it does not greatly matter which form of control is adopted, nationalisation cannot be a universal remedy. In the second place, it has been admitted by the Labour Party itself that nationalisation is

only practical politics on a basis of compensation, and this leaves the capitalist just where he was before.

But, on the other hand, if capitalism is to be justified in its fundamentals it must recognise the claim of all to share its benefits, and unless the present grievances are faced and removed no industrial policy can succeed. Better trade and more employment, higher profits and higher wages, are an essential side, but only one side, of the question. We have not merely to put the economic machine in order and let it work its own sweet will ; we also want to see better conditions of employment, a higher social standard, and more harmonious relations between the various sections of the community. Too often emphasis is laid entirely on one or the other of these points of view which, while they are distinct, are yet interdependent. For while it is true that without economic prosperity we cannot have the resources to endow social welfare, yet unless social improvement is the fruit of prosperity the achievement is barren. On the one hand a recognition that the handling of capital by private enterprise is essential to prosperity, on the other hand a recognition that the ownership of capital involves the obligation of trusteeship for its use

in national before selfish interests—these are what is most required to-day.

The individual looks to Government to maintain conditions under which he can develop his own life to the best advantage and to supply the needs common to himself and his fellow-citizens to this end. The chief of these needs are undoubtedly protection against outside disturbing influences and a guarantee of a sufficiency of material resources. The first centres round a problem of political power and the form of Government institutions ; the second is concerned with the ownership and distribution of property.

All history teaches us that it has not so much been the theoretical merits of any form of government as the way in which the existing form of government has satisfied the needs of the community which has given rise to and decided the issue of political controversies. The phrase “Good government is no substitute for self-government” has not been true in history, and can only be true when self-government shows reasonable prospects of producing good government. Until people feel that they are capable of playing a part in government, which has hitherto been denied to them, it is of no use talking of self-government at all ; but when this feeling has

been aroused, only democracy can ultimately satisfy. However good the despotic government of an individual or a class may at a time be, its uncertainty involves too great a risk of oppression and exploitation for any people who are alive to the desire for individual liberty. The only way in which the life of an individual can be ensured liberty of expression is to rest the power of the central authority on general consent. Limitation to absolute liberty of action there must be, but that limitation can only be consistent with liberty when it is self-imposed. This is the meaning which we believe should be attached to Democracy, and is really its best justification. Democracy minimises the inequalities of political power in so far as constitutional machinery can do so. The vote of every citizen is of exactly the same weight, and the aggregate of votes determines the political complexion of Parliament.

But political power is not entirely a matter of constitutional machinery. It cannot be separated from economic power based on the ownership of property. However free people may be to develop their individual lives in the security of institutions of their own shaping, the absence of material resources makes the task considerably more difficult. The advantages of wealth in

enabling the best of everything to be obtained are obvious, and those who are lacking in this respect are the more conscious of their disability in proportion as they possess political power which they cannot use to the full. It would be a mistake, however, on this account to condemn the private ownership of property as wrong in itself. Man's distinctive position in the universe is due to his ability to give conscious and material expression to the prompting of his spirit through his soul and his body. He has an instinctive sense of proprietorship in the product of his own creativity. He claims a right to do what he likes with his own. A characteristic so inherent in the nature of man cannot be ignored or suppressed, however pervertedly it may manifest itself ; but the question is, What can a man really call his own ? Locke wrote, "Labour is the only title to property"—a phrase which has received many narrow and misleading interpretations, but which is true enough if labour be taken to mean every form of creative effort. No one, however, lives or produces in solitude, but in relation with the family, the nation, the world, and the universe. Every mental and material productive act is influenced by the similar past acts of others, and will influence future acts. While, therefore, every

man has a right to what he produces, that right can never be absolute, since all productivity is the result of co-operative effort. Property created in this way has both an individual and a collective aspect. Yet there are those who, while admitting man's right to call his soul and the product of his mind his own, deny him the right of material possession. And there are those who talk of a common cultural heritage, who will not share their rights of material prosperity with any man. Individualism and collectivism are indeed but two ways of looking at the same thing—both necessary, and each the complement of the other. The antagonism between them is the result of looking at half the picture at once. Their reconciliation is the need which the theory of a social contract seems designed to meet. The rights of the individual and of the community exist side by side, and it is one of the principal functions of Government to arrange their harmonious correlation. The individual is entitled to a reward for his own productive effort. The community is entitled to receive the benefit of the co-operative aspect of that effort. In politics, the problem is that of the distribution of wealth with justice at once to the individual and to the community.

The three great political parties each approach this problem from different angles.

There was a time when the Liberal Party had a policy based on principle ; but policies, like everything else, must develop or die ; and from the moment when Liberalism, having conquered political liberty for the mass of the people, mistook independence for liberty in the economic field and took its stand for economic independence instead of economic liberty it became false to its principles, and its glory waned. For independence, however much better it may be than a state of dependence, is in itself a selfish thing, since it can only be completely won by placing others in dependence, whereas freedom or liberty must be equally shared by all, and implies such self-imposed restriction as will make this possible.

Liberalism sought to vindicate individual rights by establishing political democracy, but the form of the economic individualism with which it was associated led to very different results. The successive extensions of the franchise, which have virtually culminated in universal suffrage, undoubtedly effected a much wider and more even distribution of political influence. ‘Laissez-faire’, on the contrary, just as certainly concentrated economic influence in much fewer hands, decreased

the proportion of self-supporting families, and replaced what was at least an organised gradation of dependent classes by a chaos of unrestricted competition in prices and wages. This has nothing to do with the merits or demerits of Free Trade. It is the result of the belief that the grant of a Parliamentary vote to every citizen would establish the people so to control their destinies that, except for safeguards against definite abuse, social and economic development might be left to take its own course. The resistance of Cobden and Bright and the Manchester School to social legislation is the logical outcome of this view.

The result was a growing inconsistency between the theory and practice of Liberalism which has led to the pathetic situation of the Liberal Party at the present moment. Impelled on the one hand by a progressive tradition, and on the other by outworn reactionary dogmas, they sway from left to right in the No-man's-land of inertia between two nearly equal forces, each of which from time to time attracts a straying satellite and hastens an already advanced process of internal disintegration.

But when the beacon of Liberalism burnt low, a few of its sparks set fire to an adjacent heap of inflammable material, the drifted accumulation

of many political winds, and the ideal of economic liberty was reborn as the main theme of a new political theory. Socialism, drawing the Labour movement in its train, blazed forth as the guiding light of those whose needs remained unsatisfied.

Economic liberty did not follow in the wake of political liberty. It is the realisation of this fact which has given the Labour movement its impetus, and it is towards the establishment of a new economic order that the Labour movement is primarily directed. The impossibility of effecting the desired change solely by political means has resulted, in the first place, in the development of economic action such as is advocated by militant trade unionism, and, in the second place, in the attempt to discredit existing political institutions. Enthusiasm for the idea of an equalitarian co-operative State has outrun the practicability of immediate achievement, and impatience has unfortunately given an opening to the doctrine that the new order can only be realised by the destruction of the old, and by a period of submission to the autocratic methods which are the inevitable concomitants of violence. At the same time the political instinct will not be denied. The belief in the efficacy of legislation is by no means diminished—it is, indeed, exaggerated. The result is

the attempt to give that economic bias to the functions of government which is one of the chief characteristics of Socialism.

Conservatism has always been more concerned with the practice than with the theory of government. It prefers to approach questions by the inductive and empirical methods. Its principles and ideals have been implicit rather than explicit. Its governing idea has been to secure the continuity of development of an ordered system. It has therefore tended to support the authority of experience and tradition, not the authority of theories and ideas of any person or group of persons. The Conservative Party hesitated to accept Democracy ; but Democracy, having become established, has become the traditional form of government which Conservatives support. We believe that there is a Conservative view of Democracy and private ownership which affords a way out of the labyrinth in which political thought in this country seems just now to have lost itself. We hear much of the need for a new spirit in industry. But what we really mean is a new vigour and direction in the right spirit which already exists in industry. The wrong spirit is all too often manifesting itself to-day. At bottom it is the suspicion and misunderstanding of two

people, each of whom sees a different half of the truth. Modern conditions have driven master and man further and further apart. The personal touch has been lost, and on both sides there is a minority whose interest is deliberately to foment strife. The value of the personal touch is the *esprit de corps* which it fosters. We are in danger of losing sight of industry as a co-operative enterprise of individuals. Men are not merely units in the industrial machine, but living contributors to a living organism. Our task is to devise a means of restoring the co-operative feeling in industry, which is the right spirit in industry. And just as political democracy has achieved this in one sphere of national life, so we believe economic democracy is the solution in the industrial field. It provides the means of reconciling the divergent theories of individual and collective ownership. It is the hyphen between the individualist and collectivist idea.

The problem of the relations of the State to Capital and Labour thus appears in its acute and almost overwhelming form to-day as one of the direct results of political action in the past. It is a result of the decisions taken at recurring intervals during the nineteenth century to extend political power to the masses. The Reform Act

of 1918 continued that process until the present almost universal franchise which we have to-day.

The political status of the wage-earner has been made secure. The history of this century will largely be made up of the evolution of his economic status.

The real force behind the Labour movement to-day is the sense of disparity between these two spheres of the ordinary workman's life. In the purely political sphere he is supreme; in the economic his power is incomparably less and relies in the last resort on a weapon—the Strike—which often reechoes with the more damaging effect upon the user of it than the victim. There is no doubt that the very fact of the completeness of the worker's political power makes him distrust its reality and its adequacy. It certainly throws his comparative economic weakness into deeper relief.

For reasons which have already been touched upon, the Labour movement has become officially identified with the various forms of the Collectivist theory which are roughly classed as Socialist. It has been afflicted at times by curious and horrid growths, alien to the good sense of the working man himself. It has been infected by Marxian Socialism, Communism, and other like

monstrosities. None of this should, however, allow our attention to be diverted from the real force behind the Labour movement and the genuine enthusiasms which, from misapprehension and confusion of thought, have induced many sound Englishmen to tolerate foolish and revolutionary doctrines. This great spiritual force, which is the only live thing about the Labour Party, is the desire of the people for an economic status parallel to their present political status. Until that desire is satisfied we shall have in the industrial world recurrent agitation and confusion parallel to the reform agitations of 1832 and of Chartism. And similarly the agitation will die away on obtaining this legitimate satisfaction.

In considering, therefore, the question of the relations between the State and those engaged in industry this vital truth must always be borne in mind. Any policy envisaged or adopted must be based upon a generous recognition of the healthiness and genuineness of these popular aspirations.



## OWNERSHIP AND MANAGEMENT

*The Association of Labour.*

*Co-Partnership.*

*The increasingly Public Nature of Industry and the Extension of Ownership by Investment.*

*Labour's Status improved by the Standardisation of Profits.*



## OWNERSHIP AND MANAGEMENT

### *The Association of Labour*

IT has been necessary to devote some space to the elucidation of certain theoretical controversies which it seemed to us impossible to ignore. The ordinary man is not, however, primarily concerned with theories. Neither extreme individualism nor extreme collectivism are likely to appeal to him. Nobody really wants the rights of the individual to be exercised without any regard for the rights of his neighbour. Neither does any one really want the abolition of private property. The ordinary man wants a workable system of live and let live ; he also wants, not the abolition of property, but its more generous distribution. It is worth considering whether, in point of fact, the connecting and harmonising element between individualism and collectivism may not prove to be the wider extension of private property and democratic association with the vast power implied in economic control.

Curiously enough—paradoxically—it is in the name of this vital force behind official Socialism, the desire for a more widespread capitalism, that an ostensible warfare is now being waged against the so-called capitalist system. But every one who knows the working man knows also that he does not at all desire to abolish ownership. He wants to own more himself. Those who are studying the problem of the State's interference with industry must recognise that the real demand of the working classes to-day is not for the collective ownership of industry by the State but for a workable system by which industry shall be carried on with due regard to the interests and wishes of those engaged in it, whether as shareholders, managers, or workers.

The extension of the ownership of property has already become a recognised feature of Conservative policy in respect of land. The Housing Act of 1923 endeavoured to facilitate the acquisition by the wage-earner of his own dwelling. The Prime Minister's announcement that leasehold enfranchisement is occupying the Government's attention is an indication of a similar line of thought. An Act has been passed in the present Parliament to give additional security of tenure to allotment holders. A beginning has been made with the

development of a Small Holdings policy which should lead to a considerable increase in the number of agricultural property owners in the country side. These are, however, questions about which a great deal has already been written and to which we feel we can contribute little that is new. It is, therefore, to the less thoroughly explored field of industry in its stricter sense that we shall primarily devote ourselves.

The legal control of a trading company rests in the hands of those who supply a particular form of the capital—the ordinary shares. This power is exercised individually in proportion to the amount supplied by each shareholder, and the management of any concern is elected by the owners of the ordinary share capital. The directors stand in relation to the shareholders much as the Government of the day does to the electorate, and the management stands in relation to the directors much as the Civil Service does to Parliamentary Ministers. Labour is in a distinct and separate position. The problem of the economic status of Labour can in the long run only be solved by an association of Labour with the government of the business—not in ordinary executive and commercial management, but in the larger sense by a share in the decisions of general policy and the

creation of a feeling of real community of interest between the various parties in industry.

### *Co-Partnership*

It is quite clear that this association can in theory be achieved only in one way,—namely, by some participation of Labour in the ownership of the ordinary share capital which is the legal title to control. And it is for this reason that the various schemes of Labour Co-Partnership, which have been the subject of experiment in a number of directions, are being so much studied and so anxiously canvassed at the present time. Many people are convinced that along these lines lies the real hope of a permanent solution of the industrial problem.

Much indeed may be achieved by a direct share in the ownership of a particular concern being held in the hands of the employees, but too much stress ought not to be laid on this single method. It is not of universal applicability. Its usefulness and its possibilities are limited to certain forms of enterprise. It is eminently suited to monopoly undertakings and to those sheltered trades which for any reason have attained to or approached the character of monopolies. It is quite unsuited for general application

to those trades where instability and uncertainty are more common ; where the trade cycles of recurring boom and slump are more difficult to control. Nor is it likely that even where the various methods of Labour Co-Partnership are applicable, the schemes can be of sufficient financial importance to counter-balance the weight of economic control which is the result of pure ownership. Labour Co-Partnership in its widest sense—ranging, that is to say, from the ownership of share capital to the more general schemes of association of Labour with management in any form—is a development which we all hope to see continually increasing in strength. The idea of it will be better served by those who do not overstate its claim. It is important that its scope should be defined and the conditions in which it is most likely to flourish carefully studied. It should be the duty of progressive Conservative legislation to open the way for Labour Co-Partnership wherever possible. There is no reason, as will be elaborated later, why legal enactment should not facilitate its extension in all monopoly undertakings or in undertakings seeking powers from Parliament as a necessary condition of their existence. But at the same time if this method —the share of Labour in actual ordinary stock—

were the only possible method of achieving this desirable association of labour with the management and control of industry, the prospect of advance would not be encouraging. It would certainly be limited. There are, however, other lines of development.

*The increasingly Public Nature of Industry and  
the Extension of Ownership by Investment*

In the first place the evolution of modern industry is leading to one important result, which has been too frequently overlooked both by the attackers of so-called Capitalism and by its defenders. Whereas the control of great industrial enterprises a generation ago was commonly held in one or two hands, such a condition is to-day the exception. This process of the distribution of shares has gone further perhaps in U.S.A. than in this country. But at the same time it is true to say that the progressively wider distribution of the ownership of share capital by the investing public has changed and is continually changing the essential character of the business unit. Mr. R. S. Brookings in his interesting book *Industrial Ownership* has shown that the trust movement in the U.S.A. first brought about this result, merely through the immense size of the

capital involved.<sup>1</sup> And he points out that while at the time public interest was wholly directed upon the monopolist character of the trust movement and its consequences, the secondary results have been of infinitely more far-reaching importance. Personal management, where ownership and management are one interest, is largely disappearing, particularly in those trades where there is a large employment of labour and labour costs are a high proportion of manufacturing costs. Wide distribution of securities in the hands of the public has separated management from ownership. More important, this wide distribution of ownership is being diffused among people of small means. More and more the wage-earner is becoming an owner of capital—not necessarily invested in the business in which he works himself, but none the less invested in business. In some respects the very large and profitable opportunities for investment in gilt-edged securities—War Loan, War Savings Certificates, and the like—have hindered the diffusion of industrial capital in this way from reaching the lengths which it has attained in the U.S.A. At the same time it is clear that the process is

<sup>1</sup> *Industrial Ownership*, R. S. Brookings. (The Macmillan Co., New York.)

going on. Industrial undertakings are becoming more and more capitalised at sums that preclude individual ownership. Even where the wage-earner is not becoming a direct investor in industrial securities, he is becoming more and more an indirect investor through his membership of a co-operative society, through the funds invested by his trade union, and, finally, through the friendly society or the building society to which he may belong.<sup>1</sup>

Now this process has both a good and a bad side to it. There is no doubt that a great deal is lost by the disappearance of the owner-manager. The old direct and traditional relationship of master and man had elements of great value. It reflected a time-honoured organisation of Society. It was capable of the most friendly, harmonious and loyal working. It is still applicable to and will persist in many types of enterprise and in the initial stages of nearly all enterprises. But it is useless to shut our eyes to the plain fact that the new tendency is growing and will persist. Conservatives should in this matter, as in other matters, avoid the fatal desire to generalise and prescribe a system of universal application. We must take advantage of the valuable and potenti-

<sup>1</sup> See Note III. The ownership of British industrial capital.

ally useful sides of the modern organisation, and of these the most important is the fact that management is now becoming, in the industries which we are now considering, trustee and not owner. Through the wide holding of industrial shares among the working-class public, either directly or indirectly, it is becoming not only trustee for the shareholders, but in a very real sense trustee for the wage-earners and for the general public as well. Any one who studies the pronouncements of the so-called 'Captains of Industry', the leaders of large industrial or financial enterprises, must be fair-minded enough to admit that they are more and more coming to regard themselves as the holders of great positions of national trust and not only as the representatives of shareholders, anxious to squeeze the last ounce of profit out of an enterprise without regard to the future either of industry or the nation as a whole.

This tendency is having one remarkable consequence. In certain forms of enterprise, which partake of the character of monopolies or public utilities, the basic idea underlying the Socialist theory (namely, the production of essential commodities for use rather than profit) is being gradually adopted, in a practical form, by industry

itself, quite independently of the State. This is true of banks, railways, electrical undertakings, insurance companies, harbour authorities, and public utility enterprises generally, which are more and more approximating to the character of the Public Corporation proper. But even in the case of strictly competitive enterprises the growing dissociation of ownership and management is gradually leading to a new and wider conception of the duties and responsibilities of each of the component parts of any industrial concern.

*Labour's Status Improved by the Standardisation  
of Profits*

In the second place, as Mr. Brookings has shown by his statistical tables and as we believe can equally be proved of British conditions, the tendency of the ordinary shareholder in the modern type of concern, with a widely distributed capital, is to be content with a moderate return on his money. In the older organisation of small, privately-held concerns a large return on capital is common and justifiable. The high rate of interest is often in lieu of salary, which may be quite nominal. It takes into account the fact that the owner-manager, even if a business is

organised as a limited liability company, is managing director as well as director. Indeed, in the early stages of the development of any business, as well as in those businesses where this organisation is the best for natural causes, this is the common and reasonable state of affairs. The owner-manager builds up his business largely by his own individual efforts. He is content to leave profit undistributed in order that it may be available for further growth. Perhaps he has started with a very small capital in ordinary shares, and has borrowed what current capital has been necessary either by trade credit given freely to him by those who have trusted his individual probity and character, or by debentures which he is able to repay out of undistributed profits. But at a later stage the business grows beyond the possibility of this more primitive method of finance and management. New capital becomes essential. The owner-manager quite justifiably capitalises some portion of his undistributed profit, and by merger or re-capitalisation or public issue another stage in the development of the business is reached. The stage of intense individual effort coupled with high risk and therefore comparatively high rates of profit is gone. The business is established. It has a tradition

of skill and a history of success behind it. The new owner of capital stock does not expect or deserve dividends at such a high rate. More and more in large modern combinations the ordinary share is approximating to a preference share or a debenture. The owner prefers a modest rate of dividend, regularly paid, to a startling but intermittent profit. Large profits earned in any one year are put to reserve. Stabilisation of profit becomes one of the main objects of management and is the chief desire of the investing public. The effect on Labour is important. The interest of management is not so closely bound up as before with the payment of high dividends. It tends to become the object of management to strike a fair bargain between the legitimate demands of the shareholder and the wage-earner. And, if this be true, an important result follows. The problem of modern Labour is not so much a Labour-Ownership problem, to use Mr. Brooking's expression, as a Labour-Public problem. The fund from which Labour's share can be increased, except by means of increased efficiency, lower overhead charges, increased output, stabilisation of production and the like, becomes not the supposed inflated profit of the owners but the wages or purchasing power of other Labour groups.

During the history of the last coal dispute, for instance, it became increasingly clear that what the miners were demanding was not so much that their wages and conditions should be maintained by depleting the admittedly low, and in some cases non-existent, profits of the owners, but by raising, wherever possible, the price of coal. The problems arising out of this recognition of the conflicting interests of different industries at any moment and their harmonisation in the recognition of the over-riding interests of industry as a whole, will be dealt with later. Here it is enough to say that the more the Labour group in any particular industry is associated, wherever possible aided with the actual ownership of shares in that industry, but to a greater extent, directly or indirectly, with the now widely distributed shares of other industries, the more, in the larger sense, will Labour be obtaining for itself an economic status comparable to its political status.



**POSSIBLE LINES OF GOVERNMENT  
ACTION**



## POSSIBLE LINES OF GOVERNMENT ACTION

### 1. INTRODUCTORY REMARKS

WITH these preliminary considerations in mind, it is clear that Parliament must accept a new and greater responsibility for the conditions in industry which make up so much of the life of the State. While Conservative policy must be based on recognition of the fact that a policy of widespread intervention contains many dangers ; while it must realise that Parliament cannot conduct industries and that it is essential that Parliamentary intervention should not result in industrial issues being determined on political grounds, yet it must concentrate its attention on the real demand that some more satisfactory system should be evolved than the present chaotic condition of many of the great industries. Parliament is supreme. It cannot divest itself of that supremacy. Whatever may be the risks of a policy of intervention, the risks to the whole

national fabric of a purely negative policy are greater still. However serious a breach of tradition intervention may be represented to be, far more vital breaches of our tradition appear not impossible if Conservatism is found barren of any constructive solution. Conservative policy should therefore concentrate upon devising an intervention which shall be complete, not intermittent ; which shall provide an industrial fabric, not a series of industrial crises.

It must first of all be pointed out that industrial legislation is, broadly speaking, of two kinds, distinct from although not incompatible with each other. It is possible to deal on a wide basis with the conditions under which industry is carried on or to narrow the issue by directing attention to the relations between Parliament, as the representative of the community as a whole, and the existing organisations in industry. Under the first heading falls all such legislation as Factory Acts, Unemployment Insurance Acts, Workmen's Compensation Acts, and the like. The steady development of such pieces of social legislation must of course bear a proper relation to the economic conditions of the time. While it is quite true that more advanced social conditions—in which can be included housing and

education conditions—have a beneficial economic reaction, yet it must be recognised that all advance in what may be called Industrial Welfare must bear some reasonable relation to economic possibilities. It is doubtful whether in the present state of industry any widespread and general legislation can reasonably be hoped for; except upon normal and steady lines of progress. If improved economic conditions result from more harmonious relations between the various parties in industry, legislation improving the conditions of industrial life will follow naturally and at an increasing pace. Moreover, if the psychological analysis of our present discontents given above has any value, we cannot seek a remedy in merely improving the physical conditions of the worker. We require to satisfy his demand for an improved spiritual status, and we believe that by doing this the improved conditions will follow automatically.

So far as this side of the subject is concerned there is only one matter to which reference should be made. Public opinion is not altogether satisfied that we are making sufficient use of the machinery of the League of Nations in general and of the International Labour Office in particular, with a view both to the advance of standards and conditions of labour and the

equalising of those conditions throughout a competing world. We do not propose to enter in detail into the difficult subject of the Washington Hours Convention and the question of ratification. It is so clearly in the interest of British industry to protect itself against the ‘unfair’ competition of countries with longer hours and worse conditions, that ratification would have followed by now were there not serious obstacles in the way.

It is well known that a difference between the procedure of certain continental countries and our own in these matters constitutes a serious practical impediment. Whereas the custom in many countries is to lay down the general principle involved by statute—*e.g.*, the eight-hour day—and then issue a series of administrative orders, which may allow for numerous exceptions and evasions, any action on the part of the British Government to ratify the Convention would be followed by the hard and fast regulations implied in an Act of Parliament. At the same time, the success of the international conference held last spring in London at the instance of the Government to discuss these and similar problems has led to a widespread expectation that some solution will speedily be found.

It is certainly to be hoped that the Minister

of Labour, released from the pressure of other and greater difficulties which lasted from April to November 1926, will be able shortly to announce a definite policy, based on ratification of the Washington Convention in some form.

With this expression of opinion, however, we propose now to proceed to the narrower issue of industrial relations which we have set before ourselves. We have already noted the tendencies as regards the ownership of modern industry, which will become increasingly important as the property-owning democracy grows in strength. But apart from this development, there is nothing impossible in the participation of Labour in the general direction and control of industry by other means than mere participation in legal ownership. In ownership, indeed, lies an easy and fruitful method. But other means exist, and it is here that the question of direct intervention by the State in the industrial structure becomes acute.

First of all, it is necessary to draw a broad distinction between two main types of industry. Modern industry of the large and organised kind—that is, industry where the employers are highly capitalised corporations and the workmen largely or completely unionised—consists of two main types of enterprise. First, there are what may be

called the monopolist undertakings ; secondly, the competitive undertakings. This broad distinction cannot always be rigidly applied. Like any generalisation it is not absolute. But for practical purposes all such undertakings as are now being considered fall into one or other of these two classes.

The monopolist undertakings fall into two categories. There are in the first place those which are necessarily monopolies, because owing to physical conditions and the nature of the service it is impossible for two undertakings to cover exactly the same ground. These we may call ‘born’ monopolies. They include railways, public utility companies, harbour authorities, and the like. All these concerns have to seek powers from Parliament, and Parliamentary interference to protect the public has not been thought unwise or unjustifiable in the past. The well-known rules governing the rates of profit and the relation between profit and cost to the consumer have become an established method of legislative procedure. Nor is there any reason why Conservative policy should not go further than the protection of the consumer. It should be its first concern to ensure that, where such powers are sought and granted, not only are arrangements to

be made for the protection of the consumer, but also for the advancement of the economic status of Labour. The creation of employees' shares and a general scheme of Labour Co-Partnership on the lines of one of the recognised schemes should be made obligatory. This legislation ought to be made applicable not only to companies or corporations, municipal, statutory, or private, which may seek Parliamentary powers in the future, but also retrospectively enforced on those undertakings which are now operating by virtue of such powers. It would be quite easy to lay down by law that in all such cases a satisfactory scheme must be prepared and submitted for ratification to the Board of Trade or the Ministry of Labour within a specified date. Such schemes ought to provide both for shareholding facilities for the workmen and for direct association with the management by participation, through their representatives, in the directorate. Adequate provision should also be made for the supply of accurate information concerning the financial position of such concerns. The open-air cure, as Lord Salisbury once said, is the best cure of many industrial as for many physical troubles. There should be no difficulty in the legislative enforcement of such a salutary policy.

The second category of monopolist undertakings consists of undertakings which are not necessarily monopolist in their nature, but which have become monopolist or semi-monopolist in character by trustification to a complete or limited extent. Such concerns may be said not to have been 'born' monopolies, but to have 'achieved' monopoly—or even, to have had monopoly conditions 'thrust upon them'. Into this second category fall the banks, the insurance companies, many of the big middlemen distributors, the manufacturers of electricity plant, the Tobacco Trust, the Cotton Thread Trust, the Oil Trust, the Fine Chemicals Trust, and the like. In these cases, where no Parliamentary powers are sought, it is more difficult to impose conditions such as may suitably be imposed on the first category. But at the same time it might be possible to require similar schemes to be forthcoming from some of these scheduled undertakings, and even *ad hoc* legislation should be contemplated in certain cases. Conformity to a satisfactory standard of Labour Co-Partnership in its widest sense might be made a condition of all Government contracts. Nor would it be impossible in the last resort, if these forms of pressure, combined with that of growing public opinion, proved

insufficient to produce the required results, to apply the weapon of an additional taxation, similar in character to the Corporation Tax, to which all concerns in this category would become liable unless they could satisfy the Board of Trade or the Ministry of Labour that they had re-organised themselves in accordance with the provisions of a standard scheme.

So much for the monopolist undertakings. We now approach the problem of the purely competitive undertakings, where interference by the State in a manner similar to that recommended in the former case cannot be regarded as practicable. The obvious fact that certain experiments have already been tried on many lines, either to protect the consumer, as in the sliding scale of profit and selling price of the Public Utility companies, or to protect the workman as well, as in the case of the Railway Wages Board coupled with the Railway Rates Tribunal, shows that it is generally accepted that greater liberties may be taken with monopolist than with competitive business.

Before, however, dealing in detail with a constructive Conservative policy to meet this problem, it will be convenient here to consider some general propositions on the subject of State interference with industrial matters.

There are, on this question, two main points of view which we hear frequently and vociferously expressed. They may be roughly classed, as before, as the Socialist and the Individualist.

The Socialist argument—which, since the experiment has never yet been tried on any large scale, except in the peculiar conditions of Russia, cannot therefore easily be controverted by the lessons of experience—roughly is that there will never be any peace in industry until the ownership of all industry becomes vested in the State. The objections to this view have already been stated. They rest mainly on the practical objection that such a system would be too unwieldy to be workable, and on the psychological objection that the abolition of ownership and the transference from a Capitalist to a Collectivist society does not in fact conform to the economic ambitions and aspirations of the greater part of the community. At all events—and this is the important point in the present argument—this view is not one which really appeals to a very large number of people. It is improbable that one out of a hundred of those who vote for Socialist candidates at Parliamentary elections would contemplate with anything but horror the prospect of living under a complete system of State Socialism. It is a

noticeable feature of the present political situation that but few members of the official Labour Socialist party seriously desire the introduction of State Socialism. Nevertheless, if—as we assume—the problem is to bring into being an industrial system which conforms to the character of the so-called Capitalist society and yet is practically workable in a peaceful and quiet manner, commanding the general assent of the working classes and giving them a status adequate to their aspirations, from a theoretical point of view the Labour Socialist party is precluded from the privilege or relieved from the burden of suggesting any solution. If your solution is State Socialism, clearly you have no *locus standi* in suggesting various forms of modified capitalism. You might as well preach Christian Science, and at the same time submit to a weekly visit from your local practitioner.

The Individualist view, on the other hand, clings with equal rigidity to the ‘laissez-faire’ policy of mid-Victorian Liberalism. It insists, with varying degrees of success, that there shall be no Government interference in industry whatever. The only part it allots to the Government is what is popularly called ‘holding the ring’—a particularly dangerous appeal to the sporting

instincts of the British people, because based on a concatenation of false analogies and fallacious reasonings. This view, which, since the Conservative party from 1886 onwards has been so strongly infected with Whig and Liberal doctrine, has made much progress and commands honourable adherents in many quarters of the party, might perhaps be justified in theory if there was any reasonable chance of its being logically applied in fact. The argument that industry is no concern of the State cannot be applied to modern industry at all. The whole conduct of modern industry is governed, for good or ill, by statute. The Companies Acts, the Factory Acts, the Mines Acts, the Workmen's Compensation Acts, the Insurance Acts, the Trades Unions legislation, and countless other statutory regulations form the framework of the system within which industry operates to-day. There is no reason either in logic or common-sense why this system should remain stereotyped at any particular point in its development.

The duty of Conservatism is surely to revert to its ancient tradition of finding the common-sense solution. We should reject the *a priori* and deductive reasonings both of Socialist and Individualist theory, and view the problem from

the angle of inductive and experimental thought. We have to produce a system of industry which will actually work. The trouble now is that it will not work except with great difficulty, not so much from lack of good will and good sense on all sides—for these are more powerful than extremist agitators of various kinds would allow—but from lack of an organised structure adequate to cope with the essential conditions of modern industry and, above all, commensurate with the demand for economic status which has been created by the wide extension of political power.

Perhaps the most glaring example of the results of the absence of an organised relation between the State and industry is provided by the recent coal stoppage. Government intervention in a trade dispute does not take place in accordance with any known plan. If, for instance, there is a labour dispute in a small trade with no secondary ill-effects from such a dispute, no Government interference takes place at all. Let the makers of billiard cues quarrel with their employers, Whitehall is dumb. No tape-machine records the conflict. No newspapers fulminate their suddenly found views on the re-organisation of the industry. No Billiards Committee of the Cabinet sits in daily, almost hourly, conference.

But a stoppage in any large and vital industry makes Government interference a necessary consequence, willy-nilly, whatever be the political complexion of the Government of the day. And this is not because of any theoretical difference, on the 'laissez-faire' or Individualist view, between the billiard cue industry and the coal industry. It is for the plain common-sense reason that no Government can in fact, whatever it ought to do in theory, wholly disregard a conflict which vitally affects the whole life of the nation, politically, socially, economically.

Since, however, no generally accepted theory exists as to the proper functions of a Government in these matters, Government interference, when it comes, is usually ineffective. Those engaged in an industry of a character which forces a Government to intervene feel aggrieved often at the interference. They do not see why the mere importance of their industry should bring upon them an attention which is not impartially distributed to industry as a whole. This sense of grievance has dominated the coal-owners' position all through; and on our present basis, it is natural and logical. Government interference, moreover, is hasty and ill-considered. It is necessarily vacillating, because it is not sure

of itself. It treads warily when it should be bold, because it is uncertain of the ground. It is headlong when it should be cautious, because it is usually overdue. The disputing parties continue to bluff each other with more than ordinary vehemence, hoping to force an interference which shall be political rather than economic. The Government seldom begins to approach a problem until circumstances have rendered it insoluble. In fine, our present methods contain all the disadvantages of 'laissez-faire' and of interference, without the advantage of either plan.

Similar circumstances may recur in the coal or other industries and the Government must be in a position to deal with them in an effective and economic manner.

In a letter published in the *Times* of June 14, 1926, Sir Alfred Mond wrote :

The position of the rubber industry some years ago was even more desperate than that of the coal industry to-day. I was a member of the Government which adopted the Stevenson Scheme, and the eventual beneficial results of the Stevenson scheme for restricting output and stabilising prices are generally recognised. We did not hesitate to act as a Government on the occasion, which was infinitely less important to British national welfare than the solution of the coal crisis is to the nation at the present time.

It may become necessary, in the interests of the community, to pass further legislation affecting the coal industry—for example, to set up compulsory co-operative selling agencies, compulsory profit-sharing throughout the industry, or a National Wages Board. We would plead that legislation of this character should not be condemned out of hand by politicians on the ground that it is ‘Socialism’ or because it does not form part of the current programme of the Independent Labour Party, but that it should be considered on its merits, from the national point of view.

Accepting therefore the view that some further intervention by Parliament is necessary—a political necessity, if you like—the problem is to devise a structure by which such interference should be systematic rather than haphazard. It should be the object of Conservative policy, resting on sound Conservative tradition, to recognise the changing conditions of industry. Its object should rather be to create a system under which industry should be as far as possible self-governing, and where Government interference would be scarcely ever required in future. It should attempt by one great creative act of interference now to limit future spasmodic interference. It should, in fine, by an act of Government institute a system of self-government.

## POSSIBLE LINES OF GOVERNMENT ACTION

### 2. EXISTING MACHINERY FOR AVOIDANCE AND SETTLEMENT OF DISPUTES

#### *Statutory and Non-Statutory Agreements*

THE aspect of the problem which immediately confronts us is the machinery of considering difficulties, agreeing wages, and settling disputes. It is not of course true that the mere improvement of this machinery would effect our purpose. But it is hoped that the improved status incidental to any improved and nationally recognised machinery would tend to do so.

As regards competitive industries a state-imposed system of compulsory arbitration seems to us impracticable. It is true that certain experiments in the Dominions have met with a qualified success. But on the whole the experience goes to show that many dangers and absurdities have resulted. At the present time it would be

almost impossible to obtain the consent and co-operation of either employers or trade unions, at any rate to the crudest forms of such schemes. More than any other legislation, industrial legislation requires the sanction of general consent.

In the case of the monopoly and semi-monopoly industries it is not at all impossible that a system amounting in effect to compulsory arbitration could be worked successfully. If the legislation foreshadowed in the previous pages were to become effective ; if the opportunities for ownership and association with control were given to Labour by Parliamentary intervention, there is a much stronger case for accompanying these changes by a system of compulsory arbitration. Compulsory arbitration may even grow out of the more limited machinery which will shortly be outlined. But except in the case of Public Utility concerns and monopoly undertakings it could not be made general and effective at the present time.

Existing methods for settling wages and avoiding disputes in industry at the present time are of two kinds, statutory and non-statutory.<sup>1</sup> Non-statutory methods include Joint Industrial Councils and the whole host of independent agree-

<sup>1</sup> See Note IV.

ments for discussing wages either through central bodies deciding for the whole of a trade, or through central bodies deciding certain principles and leaving to local bodies substantial autonomy in their application. Examples of the first kind are the Cotton Trade Conciliation Agreement and the Worsted Trade Joint Industrial Council. The second is illustrated by such settlements as the Engineering Trade Conference Agreements. Although such non-statutory methods display a very great variety of organisations, one tendency during the last twenty years is generally observable. This is a centripetal tendency. Negotiations tend to be concentrated in national bodies, with a steady process of equalising wage rates, with or without cost of living allowances to suit the conditions of localities. This result has been profoundly to modify the working of the competitive system, and the long struggle in the coal industry is partly a reflection of the difficulties that a highly competitive and individualist industry finds in adapting itself to this uniformity of standard.

Consideration of this point is of great importance, because if it is true that this centralising tendency has already gone too far and has attempted to obscure real local differences, any

statutory interference which is likely, however elastic the machinery set up, to insist upon a measure of uniformity, may be thought a step in the wrong direction. The settlement of the coal-mining dispute on the basis of local agreements, embodying only the most general principles of uniform application, may seem to many a strong argument against any structure which is operated centrally.

It will be convenient to deal here with this argument, since it will, we believe, appear on further investigation that any generalisation based on the actual fact of local agreements in certain industries is really fallacious. If we examine industry as a whole in England to-day, it will be found that there are two and only two great raw material industries. These are the agricultural industry and the industries connected with the getting of minerals of various kinds, of which coal-mining is the most important. These two great raw material industries, agricultural and mining, are similar in many respects as to their conditions, although, of course, they have many obvious and striking differences. Each employs about a million persons; each is strongly represented in the House of Commons by a group of members specially devoted to its interests, some-

times without due regard for the national interests. Each is tenacious of its own point of view and jealously critical of Parliamentary interference (except sometimes as a means of obtaining financial support from national resources). Each has its powerful traditions and is intensely conservative ; each has been, and will probably again be at different moments in history, the subject or the occasion of bitter and devastating conflicts.

Now with raw material undertakings such as these there are for different reasons, as between one locality and another, very great variations in economic value and strength within the industry. There can never be any such uniformity in coal or agriculture as in purely manufacturing industries. Both these raw material industries are widespread in their operations. Agriculture is carried on all over the country ; although coal-mining is concentrated in fixed areas, those areas are themselves scattered all over these islands. The land varies in economic value ; the seams vary equally in productivity. The technical methods and traditional usages of farming are diverse and multifarious ; so it is in the getting of coal. Each industry is highly tenacious of local customs and traditions. Each is composed of more or less self-contained communities, not

subject to the pressure of public opinion to anything like the same extent as is the case with other industries, where the workers for the most part are not members of communities which have a complete homogeneity of locality and interest.

Compare these conditions with those of the great manufacturing industries. Some of these are at once local and national in their character. That is to say, there are industries, like the textile industries as a whole, which are concentrated in one particular part of the country. In such a case there is practically no real difference between a local settlement and a national settlement. Any agreement arrived at in Lancashire affecting the cotton trade is, in fact, a national agreement. A settlement in the woollen trade come to in Yorkshire may be called local, but its effect is all-embracing. There is no question, in these cases, of having to meet the widely different conditions of farming which obtain in the hills of Cumberland and the weald of Sussex, or of trying to reconcile the physical differences between coal-mining in Durham and in Derbyshire.

Other manufacturing industries, moreover, even where they are not concentrated in one particular locality but are widely scattered throughout the country, do not vary in their economic value,

owing to physical and geographical conditions, to anything like the same extent as raw material enterprises. There is nothing in Nature which makes it harder to print a book in London than in Glasgow, as it is harder to dig coal in Lancashire than in South Yorkshire. The only real economic differences lie in the cost of living in different towns, and here the compensation for higher costs is found in the greater opportunities for business that are obtained. In the Printing Trades agreement, therefore, which is nationally negotiated and of national application, a schedule of towns and localities has been drawn up, and rates of wages vary in accordance with the agreed differentiation laid down in the schedule.

If this general argument is sound, it would appear that although in the case of raw material industries, like agriculture and mining, local settlements should be negotiated, taking into full account the local variations in economic strength, this policy is not equally applicable to manufacturing and distributive business. In the latter case, a greater uniformity of conditions makes a national method of arriving at agreements highly desirable ; and the agreements arrived at can easily be of national application, since the

local differences are not more than can readily be dealt with within the terms of a national settlement. This distinction between the raw material industries and other industries removes the apparently strong case that can be made at the present time against the encouragement of any centralising force in the negotiation of wages and conditions.

Returning to the main argument, we have noticed the growth and importance of existing non-statutory methods of obtaining agreed settlements. We must next consider existing statutory methods.

The most obvious of these are the Agricultural Wages Boards and the machinery set up under the Railways Act.

The Agricultural Wages Boards are of recent origin. The Act which instituted them was passed by the Labour Government of 1924, although largely moulded in its passage in accordance with Conservative views owing to the fact that the Labour party had no clear majority. The principle of the Act is the autonomy of the local area, in this case the county. The powers of the national tribunal are restricted to ability to refer back a local decision for re-consideration. The national body has no power to revise or

amend the decisions arrived at by the local body. The local county board is presided over by an independent chairman. There are representatives of the farmers and of the labourers in equal numbers, and there are in addition appointed impartial members, acceptable to either side but not representing either side. The rates of wages and conditions of work settled by a majority decision become implied conditions of contract in the industry, leaving of course the right to withhold either labour or employment.

These Boards are therefore the typical machinery suitable for a raw material industry. Although there has naturally been some criticism of the actual operation of the Agricultural Wages Boards Act, on the whole the Act has worked well. The settlement arrived at in the coal dispute depends upon a structure in many respects analogous. Although the problems to be settled in the latter industry are of much greater difficulty, largely owing to the very complicated methods of calculating wages which have grown up in the industry, yet there seems no reason why the general principle of the Agricultural Wages Boards system should not be successfully applied by law to the mining industry. It might be desirable to retain more power in the hands of the central

tribunal than under the Agricultural Wages Board system. But the agreed conditions which are to constitute a 'standard' settlement would adequately secure the national adherence to certain general principles, and it is at any rate in the analogy of the Agricultural Wages Board, if any statutory machinery is to be taken as a precedent, that a statutory structure for the other great raw-material industry is naturally to be found.

#### *Railways Act 1923 as Type for Monopoly Industries*

The machinery set up under the Railways Act of 1923 is of a somewhat different character. Naturally, owing to the conditions of railway work, national and not local agreements are required, nor are there any objections possible in the case of this industry to national negotiations. Under the Act a Central Wages Board is set up, consisting of representatives only of the industry itself, and the industry is therefore allowed to settle its own affairs if it can. If the Central Wages Board cannot arrive at a settlement there is a reference of the question in dispute to a National Wages Board, on which the users of railways, both industrial and private, are

represented. It is one of the weaknesses of the procedure that there is usually in practice a reference to this body on any issue of real importance, and the proceedings before the Central Wages Board tend to become purely formal. This weakens the sense of responsibility of the accredited representatives of the industry and is not an altogether satisfactory arrangement.

The decisions of the National Wages Board are, in effect, arbitral decisions.

The Board consists of an independent chairman appointed by the Government, a secretary from the Civil Service, six representatives elected by the Boards of the Railway Companies, six elected by the workers' Unions interested, and four representing users of the railways. Of these latter four, one is chosen by the T.U.C., one by the Co-operative Societies, one by the Federation of British Industries, and one by the Association of Chambers of Commerce of Great Britain. Although the period during which the Board has operated is a comparatively short one, and in spite of certain weaknesses of the system under which it operates, there can be no question that its existence has introduced a great element of stability into the railway world. The experience gained from its operations may lead to some

modification of its machinery ; but on the whole, its history has been one of success and promise.

It will be seen that the system of the Railway Act is, in fact, appropriate to a semi-public monopoly industry, especially where such an industry derives its trading powers from statute. It is a machinery which, with certain modifications designed to meet some of the defects which have become apparent in practice, might well be extended, as described above, when dealing with monopoly business, to be the general structure governing the settlement of wages and conditions in such undertakings. Whereas what amounts to compulsory arbitration may perhaps be enforced in such cases without the risk of resistance or failure, the machinery is too rigid and too unimaginative to be applied to industry as a whole.

### *Trade Boards as Type for Competitive Industries*

The system which may serve as a model for the requirements of competitive industry finds its model, in our opinion, from the third and rather different form of statutory intervention which has hitherto been tried, that is, the machinery of the Trade Boards Act.

The Trade Boards were originally devised to cover only the case of the weaker brethren of

industrial life. They were the result of the social activities of a few reformers finally bringing a sense of shame and disgust into the conscience of society. Hence, since their historic tradition is with the lame dogs, so to speak, of industry, it may seem curious to use them as a precedent applicable to competitive industry as a whole, including even the great and prosperous industries of which we are proud and whose conditions may be in every way model.

The Trade Boards do indeed operate on the principle of the statutory protection of a minimum subsistence for workers who are unable to make and protect a standard satisfactory to public opinion. The rate of wages declared to be an implied condition of contract in the industry concerned is a welfare rather than a standard rate. The Boards have ordinarily operated in what was popularly known as a sweated industry, where the workers were often women and children and always unorganised. In these industries they have fixed a welfare rate and welfare conditions below which the public conscience declares it to be indecent for people to work. To give by the same machinery legal force to a standard rate and standard conditions to an industry which may be flourishing, highly paid, well-organised on both sides, with a

long history of free negotiations between associations of workmen and employers, seems indeed a somewhat revolutionary proposal. It may be argued that the Agricultural Wages Boards have shown an advance on the Trade Board principle, inasmuch as they fix standard rates for different classes of skilled workmen, cowmen, shepherds, ploughmen, etc., but the extension of the principle to all industry would certainly provoke much immediate opposition.

Before giving further reasons why we consider that in this extension of the Trade Boards machinery lies the structure we require, let us consider in detail what that machinery is. It contains two most valuable principles. In the first place, its appointed members (and the precedent has been followed in setting up the Agricultural Wages Board) represent an outside element, independent of the official representatives of the two sides. This principle is not only one of immediate significance and practical value ; it also contains in itself the seeds of great potential development and strength. There is nothing which might be of more use to an industrial framework than the existence of such an impartial but expert body of opinion as might be attracted to this class of work. In the second place, the Trade

Board allow the nominations of persons sympathetic roughly with one or other of the two sides and acquainted with the industry, but not officially representing the organisation of workmen or of employers.

Although hitherto this outside element has necessarily been composed, in the case of Trade Boards, mainly of public-spirited persons who have been interested in the social problems of sweated industries, yet if the structure were developed and extended to the great organised trades, there is no reason why this principle of the outside appointed element should not develop into an organisation of technical and scientific assessors or advisers who might even eventually become full-time and highly-paid officials, servants of the industry as a whole, whose work would prove of the greatest practical economic value. This element of the proposed system will be elaborated later. It is one of its most hopeful possibilities.

## POSSIBLE LINES OF GOVERNMENT ACTION

### 3. SUGGESTED DEVELOPMENT OF TRADE BOARDS

TAKING, therefore, the Trade Boards Aets as a basis, the kind of system whieh might be evolved is roughly as follows :

In every important industry there would be established by statute a National Wages Board, consisting of delegates from the elief organisations in the industry, both of employers and of workers ; of other representative employers and workers not direectly representative of the partieular organisations of the industry ; of appointed members, and an independent ehairman. The members direectly representing the employers' assoeiations and the trades unions eoneerned would be nominated by them. The other members would be appointed by the Ministry of Labour after eonsultation with the independent ehairman, who should, if possible, be agreed upon by the representatives of the employers and of the work-

people. The financial cost of the Board would, in the first instance, be met by a charge on the Exchequer ; but it would be within the competence of the industry, if it thought fit, to substitute at its own expense for the fees which the Treasury would pay for occasional work on the Boards a regular salary for a permanently retained staff, in which case, of course, a small allowance might be drawn from the Exchequer and credited for this purpose. It would be hoped that the custom would spread, as the usefulness of the Board became recognised, of employing by permanent engagement the best available talent. The appointed members, in particular, give scope for the assistance of skilled accounting, business, and scientific advice to the Board.

The Board would have the power to fix and vary standard rates for all grades of workers within the Unemployment Insurance Act category in all occupations in the industry. It would also be empowered, if it thought fit, to fix and carry out any tests necessary to determine whether a worker was of the grade to which a particular rate applied. It would fix maximum hours of labour and overtime rates. It would consider any dispute arising in the industry and take whatever action it thought appropriate in the

matter. When the Board had fixed rates of wages and hours of labour, their decision would be sent to the Minister of Labour for confirmation. The Minister would be required within two months to confirm the decision, or to return it to the Board with a full statement of his reasons for refusing confirmation. The Board would take into account the reasons advanced by the Minister, and might modify its decision accordingly.

But if it preferred to reaffirm its original decision, the Minister would be legally required to confirm the decision within one month. That is to say, the Minister would not have an absolute, but merely a delaying, veto.

Confirmed decisions as to rates and hours would become implied terms of all contracts of employment in the industry, enforceable by civil process or subject to a continuing penalty for non-observance on complaint by an aggrieved party. The right to withhold labour or employment would, of course, remain in theory, but in practice it is believed that the decisions of the Court would be accepted by the industry.

Other powers and duties might be entrusted to the Boards, but in these matters their decisions would not, at any rate in the first working of the scheme, have legal effect. Of these, recommenda-

tions of a technical character would be of great value. Indeed, in many ways this side of the work might prove the most important. There is no reason why in many industries the Board might not develop, on this side of its activities, into a healthy and constructive department of scientific and technical research for the benefit of the industry. There have been indications that such a development is growing from the present Joint Industrial Councils. For instance, the inquiry undertaken in the shipbuilding trade by the joint efforts of employers' associations and trade unions holds out a promise of further extension. Recently, again, a Joint Industrial Committee for research has been appointed by the printing industry, in which the official organisations on both sides are, through their representatives and the additional help of skilled technical advice, co-operating in a trade inquiry which is intended to be of general benefit to the industry.

We believe that this part of the Board's activities would prove of increasing value year by year. One of the many sources of discontent at the present time among the working classes is a widespread belief that some industries are not as efficiently managed as they might be. Often

these criticisms are ignorant and misconceived. If the Board provided the opportunity for their investigation and computation, it would do useful work. If, on the other hand, practical suggestions for improvement were the outcome, this would be of the greatest value to industry. Many industrial improvements, moreover, entail concessions either on the side of trade unionism or on the side of capital. These problems could be argued before the Board and settled in accordance with its recommendations.

There are in addition many other directions in which the advice of the Board would be of practical use. It could recommend the adoption of a particular system of organisation on the side of 'personnel'. It could encourage the development of Works Councils. It would develop 'welfare' work of various kinds. It could recommend schemes of pensions, of superannuation, of holidays, and the like. In all these spheres its guidance would be gradually welcomed as of considerable assistance to the industry.

These and many other questions, partly of organisation and partly of a scientific and technical character, would fall within its purview.

There is no reason why the Board should not grow in time into a position of immense importance

along these lines. One can imagine independent chairmen of proved capacity being retained at high fees. One can picture eager rivalry between different industries to secure the services of distinguished men of science and jealous bidding up of salaries between those responsible. It is hoped that the Boards would grow in strength and influence, and nothing would be more conducive to their doing so than the custom of their being permanently retained bodies, constantly in session either formally or by sub-committee work, rather than *ad hoc* bodies, appointed only to deal with difficulties when they arose.

Moreover, there is no doubt that one of the most alarming features about the trade union movement to-day is its negative and destructive character. It is so preoccupied with the holding of entrenched positions, won by great struggles and often with great sacrifices, that its mind seems set in this world of military similes. By the legal protection which the Board would be able to give to all standards once won, which were at all reasonable, the spirit of trades unionism might be released for a far more valuable sphere of work. Once it was realised that the Board would ensure that profit which resulted from increased output or more efficient

management was automatically distributed between the various parties in the industry on an equitable basis, would not the representatives of Labour learn to concentrate their attention on these means, ready to hand and not now properly exploited, of advancing the conditions of the working classes ? With the legal sanction which the Board would be able to give to "the square deal" would not trades unionism be far more ready to consider the abandonment of foolish restrictions, which only have any object on the basis of a conflict of interest in industry and can only be defended as symbols of distant victories, hardly won under past conditions ? And if the inference drawn in earlier pages is at all correct, that the conditions of modern industry are making it more and more apparent that the opportunities for increased wages and better conditions are to be found, not in the fiction of inflated profit, but in the reality of harmonious and scientific co-operation, may not the Board, by the stability which it will afford the worker, as well as the guarantee it will give of his fair future treatment, prove itself more and more the focus of joint industrial inquiry and combined research, so that these functions may eventually even obscure its original mediatory and arbitrative purpose ?

## POSSIBLE LINES OF GOVERNMENT ACTION

### 4. SOME DIFFICULTIES AND OBJECTIONS

SUCH is the brief outline of a scheme for the re-organisation of our industrial system which appears not impossible of realisation, and some parts of which, at any rate, Conservative policy ought to adopt forthwith. Before discussing it further, it will be convenient here to deal with some of its obvious difficulties and dangers.

Apart from any fundamental question as to the economic merits of these proposals, some formidable difficulties in their adoption have to be faced. In the first place, we should have to decide whether their application was to be universal and compulsory. If so, it means, naturally, the superseding of existing non-statutory machinery, even where that machinery is effective and capable of development. This will mean opposition and criticism, especially from those trades which have succeeded, like the iron and steel trade or the

boot and shoe trade, in working out for themselves a satisfactory structure. It is true that it might be possible to allow a trade to contract out of the obligation to conform to the general structure by satisfying the Minister of Labour that its methods were as efficient as in the proposed scheme, but it would certainly detract from the effect of the introduction of the system and its success if it were not practically universal. It is not, however, to be doubted that of the considerable opposition which would necessarily follow the introduction of any compulsory scheme, a large measure would come from those trades which would be able, with conscious virtue, to throw doubts on its necessity. It might be possible in some degree to remove this feeling by an appeal to the pride of the trades in question, since what the Government would really be doing would be in imitation of the successful efforts of these progressive and far-seeing industries.

A second difficulty of supreme importance is inherent in the principle of giving the various Boards power to fix standard rates in accordance with agreed standards of ability. As the present Trade Boards fix only in effect a minimum welfare rate, the difficulty does not now arise in their procedure. But it is not easy to imagine a

standard rate enforceable by law without some standard of ability, and indeed the right of the Board to insist upon this and make practical arrangements for local test and enforcement is of the greatest importance. Some of the skilled trade unions may be short-sighted enough to oppose a trade test. But it is, in the end, the only real defence of real skill. On the foundation of true training and true skill it ought to be possible to fix, without damage to trade union standards, higher rates for higher skill. Without a trade test there is likely to be evasion, if the rate is fixed too high, or else a tendency to fix rates which would not be uneconomical in respect of the lower ranges of skill in each grade, but would be too low to represent the value of the higher ranges. The result of this would be either to depress the wages of the more skilled men or to imply that these were maintained simply by the force of trade union action, an implication which involves a re-introduction of the idea that only by the strike weapon can the standard be maintained. This difficulty is indeed a very great one, but we believe that it can be met. Experience will devise many methods of avoiding the apparent dilemma. The growing fear of the craft union of being entirely absorbed by the industrial union will be a force

ultimately on the side of the idea of a defence of skill, although at first sight it might seem to be a force which would oppose the whole scheme. The practical difficulties in the trade test idea are not at all insuperable. The real danger is opposition from the Labour side. In effect, the successful solution of the problem in various industries will depend on the degree to which the Board succeeds in obtaining the general confidence of those engaged in the industry concerned.

A third grave, though not insurmountable, difficulty will be the definition of the scope of each industry. And as trade unions cater for more than one industry and the economic value of their members to each industry may vary, the result may well be a varying rate of statutory wage for members of the same craft. It is true that this variation exists to a considerable extent to-day and is accepted by the unions concerned. Their attitude, however, might be somewhat different if this variation was the result of an intervention initiated and consolidated by statute. The growing tendency, however, already noted, of craft unions to be superseded by industrial unions may facilitate the change. At any rate it is a force which will operate in the direction of leading the craft unions to accept any reasonable

compromises. Moreover, experience shows that anomalies of this kind are not, in practice, necessarily conducive to discontent, more especially if these are well understood and traditional.

These are some of the technical objections to the general scheme.

A fourth objection of a somewhat different kind will immediately occur to the critic. It is a widely held opinion, based on strong arguments drawn from actual experience, that the more intimate association between Labour and management which is fostered by the Works Council is of greater practical importance to the cause of industrial peace than any results which can be expected either from the existing Joint Industrial Councils or from any institutions formed upon a national basis.

It is quite true that the development of the Works Council is of immense value. It provides an educational element—educational to both sides—far more powerful than anything which can be expected from the work of a national body, which is more remote and thus followed with less interest. It is quite clear that the Works Council is an essential basis for any fabric, if it is to be really strong.

It is a machinery which can do a great deal

to create a better atmosphere, to smooth away difficulties, and to solve minor problems in an early stage, before they have time to develop into dangerous issues. At the same time we do not believe that any statutory attempt to hasten the growth of the Works Council movement would be successful. Experience both in the United States and in Germany has shown that it would be a mistake to make the effort. Not only would it be a matter of enormous difficulty and complication to frame a satisfactory statute, but the opposition which would be aroused on all sides would probably do more harm than the resulting good.

At the same time one of the greatest factors which is at present hindering a more rapid increase in the number of successful Works Councils is the very general opposition, sometimes concealed but always present, of trade unionism. This opposition, we believe, would be very largely discounted if the Works Council could be operated on a basis which clearly left the more important decisions affecting an industry as a whole to such a body as we have outlined, especially if that body were armed with statutory powers. The suspicion that the Works Council movement is an ingenious attempt to outflank

trade unionism would be dissipated. It would become clear what its true functions are. Its advantages in dealing with purely local matters at an early stage ; its functions in the direction of introducing changes sometimes trifling in character, but at the same time of the first importance as regards the comfort and happiness of the worker ; its educational power, in helping both sides to see each other's point of view and understand each other's difficulties—all these considerations would, we believe, weigh strongly with all except the purely revolutionary elements of the trade union world, always provided that there was no fear that the Works Council would undermine the movement or deprive trade unionism of its proper and legitimate functions. In our opinion, so far from the policy we have suggested being in any way antagonistic to the Works Councils, one of the first objects of the new Boards would be to encourage their spread in every possible way, if only to save themselves from the necessity of dealing with a large number of minor problems which might otherwise cause them anxiety and perplexity.

All these objections, therefore, although they undoubtedly present serious difficulties, can, in our view, be overcome, provided the will to overcome

them exists or can be stimulated in all parties. The advantages of the economic status which a general and recognised acceptance of the Boards will give to the worker outweigh the apparent drawbacks of which some of the unions may feel at first conscious. The immense value to the wage-earner of a statutory defence of the standards already won ; the opportunities for a general advance, both in actual conditions and in status which the Board would bring by its operations in various spheres ; the general sense of the opening of a new and more hopeful chapter in the history of industrial relations—all these seem overwhelming arguments in favour of embarking on a course admittedly difficult and dangerous, but leading in the end to the desired haven.

After all, the protection of basic wages is to-day the main *raison d'être* of trade unionism. If the Board undertakes this function in every industry, it allows the intelligence and enthusiasm of the trade union movement to be diverted to far healthier and more useful activities. The safeguard to the employer of a standard of skill which is positive, and not determined automatically by a trade union card, is also a very real advantage ; and the development of this principle would in time give the Board a

direct interest in the standards of production in the industry concerned. At the same time the formal introduction of outside thought and scientific knowledge might be the seed from which would spring not only an immensely improved psychological point of view both among employers and employed, but also a real and practical industrial progress. In time a general sense of security would enable all parties to turn their attention to a constructive policy—an attitude of mind which would immensely help the up-to-date employer *vis-à-vis* his reactionary rival, as well as proving of high moral value in the development of Labour. Whereas in monopoly industries it is possible to insist by legislation upon some direct control for Labour by association with management, in competitive industry the structure outlined above will give Labour the required sense of security which will lead to a consciousness of dignity and power. The steady development of the activities of the Board in each industry would guide all parties into more and more constructive channels. Nor is there any benefit likely to accrue from the adoption of such a system which would be of greater value than the heightened sense of recognition which Labour would thus obtain.

The scheme, in effect, combines the principles of the Trade Boards and of the old Conciliation Boards. It avoids the necessity for inspection or control by Government officials. It depends for its success on the ability of each industry to take upon itself these responsibilities and to perform its new functions in a satisfactory manner. It provides for the new status of Labour and gives it statutory recognition. It attempts to give trade unionism the opportunity to play a really useful part in industrial development by giving it the duty of constructive work, in the place of its present negative and destructive tendencies. By the introduction of the principle of the trade test it gives an importance to the work of the Boards which will be generally recognised, and it balances the protection which it affords to the worker by a defence of his standards by the safeguard which it gives the employer through the maintenance of a proper technical ability. Most important of all, it provides a machinery by which disputes may be considered in an atmosphere uncontaminated by political interference, conducted by a properly constituted authority within the industry concerned.

It is not to be denied that the policy fore-

shadowed would develop a system which, like all formal institutions, would be capable of tyranny and exploitation. It is possible that the machinery involved would be rendered unduly powerful by the ready co-operation of all parties within the industries without due regard for the perhaps conflicting interests of other industries. This question will be dealt with in the ensuing pages. It is also possible that it would be vitiated at the beginning by the resolute refusal of all concerned to co-operate. At the same time the whole plan involves a novel and to some extent hazardous change in the relations between Parliament and industry. It would be bitterly opposed by the Die-hard section of the Conservative party, which is so paradoxically imbued to-day with Whig and Liberal traditions, as well as by that extreme section of the Labour party which is desperately anxious to prevent the emergence of more harmonious relations between the various parties in industry, for fear of consolidating the so-called Capitalist organisation of society. Between these two extreme views there are, on the other hand, powerful forces which would rally to the support of a progressive industrial policy. We believe those forces to be always victorious, if they can be but

mobilised. They are the forces responsible for the long and successful development of our free institutions and by which alone those institutions can be maintained. Great as are the dangers of a forward policy, great also are the risks of a negative policy. If Conservatives will realise the urgency of the position ; if they will take their courage in their hands and decide upon the authoritative adoption of bold and comprehensive measures, the country may be spared not only the follies of reaction to-day, but also the devastation of revolution and counter-revolution in the future.

## POSSIBLE LINES OF GOVERNMENT ACTION

### 5. FINAL CONSIDERATIONS

THE foregoing pages have dealt with the duties of the State and a possible development of the generally accepted view of those duties towards particular industries. It cannot be denied that such a structure as has been tentatively described would meet with determined opposition in its initial stages from many Conservative quarters. It would also, in all probability, fail to gain the support of the official Labour movement, although many trade unionists would welcome such a policy. If certain changes in the legal status of trade unionism are to be introduced, it would be of immense advantage to the nation to develop simultaneously with such legislation a policy which encouraged trade unionism to play its part and perform its functions in the sphere which indubitably belongs to it.

There are, however, other important aspects of

the problem which have not been dealt with. In the first place, it may be asked, where in all this scheme is the Government's performance of its duty to the consumer; secondly, what means are going to be adopted to co-ordinate the activities of the organisations set up in each industry, and to settle the many difficulties arising from their often conflicting interests? That is to say, how can we avoid the danger of these strongly organised industries being powerful enough to plunder the public or prey upon each other? Is there not a danger of the consumer, whose supposed interests were so dear to the hearts of Victorian economists, being victimised by the highly organised 'cartel', and may not the sheltered industry, fortified by its new organisation, be an even more formidable burden than at present upon the shoulders of the unsheltered industry?

The main answer to both these dangers lies in the hope that in the new organisation of the industrial world which would result from these suggested changes it will become more and more apparent that the source of any increase in wages or betterment of conditions must be the greater economic value of work done. Except for this, they can only result at the expense of the wages and conditions of other Labour groups, considered

both as producers and investors. The machinery for the better conduct of industry as a whole, outlined above, coupled with the actual observed tendency of the change in ownership of industrial concerns, which we noted at the beginning of these considerations, must in the end have an educative effect which would reveal this truth. The more widespread ownership becomes, the more management becomes divorced from ownership; the more Labour becomes associated with both, either as investor or as worker, the more apparent will become the interdependence of Labour's true interests. Even in the course of the coal dispute it has become clear that the real demand of the miners, apart from benefits which may be possible by a re-organisation of the industry, has been to demand a subsidy for their wages, either directly from the taxpayer or from the consumer in the shape of an increased price for coal sold in the home market. The State subsidy is admittedly a burden upon the country as a whole. An increase in the price of coal is equally a burden borne partly by the individual consumer, rich or poor, and partly by other industries—that is to say, other Labour groups, who will suffer either by an increase in the cost of living or by a decrease in the amount of employ-

ment available. The whole basis of wage claims during the last few years has been wrong. The representatives of the workers are often correct and certainly within their rights in claiming that the increased wage could be met by increased efficiency in the particular industry. The industrial Board will give them the opportunity of substantiating these claims, if they are true, and of obtaining for this purpose the assistance of skilled technical advice. In the clash of argument which would ensue, many healthy results would follow. It might appear that there were faults on both sides. It might be demonstrated that old-fashioned and obsolete methods of selling by the employers could be countered by equally obsolete regulations which hampered and restricted output by the men. All discussion on these lines would produce valuable results. But little discussion on these lines, except in exceptional cases or where the men have had leaders of exceptional intelligence, is a feature of the ordinary mentality in these matters. It has been assumed that ownership has some mysterious and almost limitless margin of profit which it can be made to disgorge. But as it becomes elucidated, partly by the increasing weight of the facts themselves and partly by the educative influence of a wise industrial

structure, that the average profit of large industry to-day is more and more on a scale that approaches a debenture rate of interest and that the profit is going to large numbers of small shareholders, so it will follow that beyond the squeezable point, at any rate, an outrageous demand by the workers of one industry can only be met by an attack on the wages and conditions of the workers of another.

The consumer, after all, is also a producer. He is a consumer of necessity ; he is a producer in order to become a consumer, either directly by his labour or indirectly by his saved and invested wealth. At the end of the coal stoppage a very interesting development has taken place. It has gradually been brought home to all those engaged in other industries, whether owners, managers, or workers, that the conduct of the dispute by the various parties to it has not been altogether in the general interest. There has by this been developed a sense of solidarity within one industry. The railway industry, for example, or the iron and steel industry, have become more and more impatient of the ruinous follies of which they are the victims. Instead of the old horizontal division—the so-called class division—which has done so much injury to the nation in the past and threatens it with grave dangers in the future—a

division, moreover, which is the more foolish because it is in effect obsolescent—we find the growth of a new and much healthier vertical division. The growth of this new spirit of industrial solidarity, industry by industry, is a necessary preliminary to the creation of a real sense of national solidarity. It is quite true that there will be divisions and contests stimulated by an industrial structure such as is outlined above. But they will be far less formidable if they cease to be ‘capital versus labour’ but inter-industrial divisions. The problem of their reconciliation will be far easier of solution if the class problem does not arise. Indeed, the failure of the National Industrial Council was due to the fact that it was premature. The time is not yet ripe for it. Important as are the discrepancies between industries which should be harmonised and the anomalies which should be removed, it is not feasible to attack this problem until the greater problem of the internal and vertical divisions of our people has been met. The activities of the T.U.C. at the end of the strike were, in fact, hardly distinguishable from what might have been the activities of the F.B.I. And one can well imagine the growth of the structure suggested leading in the end to a reasonable and agreed

machinery for the settlement of inter-industrial disputes—a machinery which will operate in a wholly different atmosphere if the general assumption is admitted of the solidarity of real interest in any particular industry between owners, managers, and workers. And although it must be recognised how serious is the problem of a fair adjustment between sheltered and unsheltered trades, that problem has after all been well understood for some time and nowhere are there signs of its solution. The only method by which it can be approached is by the preliminary method suggested here. It will be a firmer foundation if we can build on a recognition of the emptiness of the old conflict between capital and labour than if we attempt a hasty national organisation which rests on no sound foundation. Parliamentary intervention cannot correlate the condition of sheltered and unsheltered industries to-day. It can provide an industrial structure to each industry out of which a co-ordinating machinery may in due course develop, resting upon the solid rock of efficiency and goodwill in each compartment of the industrial world.

It may, of course, be urged, in opposition to all these arguments, that there is no guarantee that even if the Conservative party were to take

upon itself to embark upon the kind of policy outlined above, there would not be in the future a recurrence of industrial disputes and conflicts. It may be said that a policy so hazardous can only be justified by the certainty of success ; that Government intervention, on so wide a scale, ought at least to secure a system whereby the decisions of the conciliating or arbitrating bodies will be accepted by all parties. What is the use, critics may ask, of our Party venturing on a programme like this, which may have a disintegrating and even devastating effect upon us, if after it is all done, we have more strikes and further unrest ?

The answer would appear to lie along the following lines. The practical effect of the suggestions made in the foregoing pages is the erection of a dual machinery, which, in the case of certain monopoly industries and certain essential industries, amounts to compulsory arbitration, and in the case of industry generally to compulsory conciliation. Compulsory arbitration has always been regarded as impracticable because of the difficulty of providing efficient sanctions. It is generally admitted that it would not be possible to adopt a general system of compulsory arbitration at the present time. But in those industries

which are either monopolies created by Parliament or working under conditions which amount to monopoly conditions, it does not seem impossible to extend the existing statutory machinery in this direction. The sanction, in the case of the employers' side, is easy to find in this category of industry. The monopoly which has been created by Parliament can be taken over by Parliament. The monopoly which the State has allowed to grow up, the State can reasonably decide to control, if such a course appears to be in the public interest. In practice there are a large number of methods by which a sufficient degree of pressure can be applied by a Government which has the will. Financial pressure or penalty for non-observance may quite well be applied and provided for in drawing up the arbitration machinery. And the general conscience of the nation, which would shrink from the use of compulsory methods applied to a competitive and unsheltered industry, would sanction a very strong line of action against recalcitrant employers in monopoly undertakings. In the same way, it is reasonable to suppose that public opinion would support the use of pressure against unruly or anarchical trade unions or workers whose occupation is already protected by its monopoly condition. Financial pressure can

be exerted against trade union funds in such cases. Nor do we believe that the nation as a whole would be averse from the application of the only ultimate sanction that can be devised against the workers, the withdrawal of Poor Law relief and the legal enforcement of penalties against a man who, having employment available on the terms declared by an arbitrator's award to be fair and equitable, neglects to support his wife and family. This sanction—in the last resort the most powerful that can be devised—if limited to the case of workers who have all the advantage of fixed occupations, without risk of unemployment, in sheltered and protected trades, would be effective, and compulsory arbitration can, in fact, be made workable if the conditions surrounding its application are so clearly reasonable and fair that the State is justified in dealing sternly, and even brutally, with those employers or employed who pursue an obviously anti-social line of action.

The conciliation machinery, of course, cannot be operated in the same way. It is quite true that the right to strike and the right to lock-out would remain as at present—in theory. But it is more than likely that in practice the existence of the machinery would make its use more and more effective. The habit of conciliation, if it

can once be formed, becomes, like all habits, increasingly powerful. Associations of employers and trade unions are both very conservative institutions in many respects, and very tenacious of traditions once formed. The history of the various non-statutory conciliation systems proves this. Moreover, the conciliation machinery outlined above differs from the ordinary machinery, to which we are at present accustomed, in two important respects. First, the formidable power of making its decisions implied conditions of all civil contract would in fact give the organisation set up a quite different status from the present Joint Industrial Council. Second, the fact that the Boards contemplated would be permanent rather than *ad hoc* bodies, working in daily consultation on all questions other than wage disputes which were of interest to the industry, would give the Boards a position and an atmosphere far more favourable for the settlement of disputes, when they arose, than the present bodies, which are either called hurriedly together when a crisis is approaching or meet, at any rate, to discuss no other subjects than those questions of wages and conditions which are the source of acute disagreements. The close and harmonious efforts of a general character for the advancement of the

industry itself and the increase of its economic value and efficiency ought to call out the best elements on both sides. And the atmosphere in which such a Board would operate would be one most favourable to success.

At all events, the likelihood of strikes and lock-outs, if such machinery became general, seems much less than under the present system. A certain odium would fall on the party which refused to be bound by the Board's decisions. The danger of sympathetic strikes and lock-outs would be greatly reduced. All that strong and undoubtedly growing desire that the present industrial strife should cease and a reign of industrial peace begin—a desire shared by a large majority of all parties to industry, as we believe, and naturally stimulated by the degrading history of the last few months—instead of wasting itself in vague and perhaps ineffectual aspirations, would find a focus point round which it could rally. The danger of the moment seems not so much the absence of good-will, but the lack of a machinery which good-will is to operate. The League of Nations in international affairs has provided the necessary rallying-point. Nobody pretends that the League of Nations machinery is perfect or will necessarily be effective in every emergency. It

cannot be claimed that the industrial machinery suggested in the foregoing pages is a panacea. But, like the League of Nations machinery in the realm of international disputes, it is at least a machinery. Those who have most hopes of the League base their optimism not so much in the value of the machinery itself for the purpose of dealing with a grave crisis when it may arise, as on the psychological fact that long years of joint action and joint consultation on many subjects of common interest will create and has already created a sense of international understanding among the statesmen of the world which will be of value when the crisis does appear. Similarly, may not common action and joint consultation between the various parties in industry, if it becomes a normal condition of industrial life, prove the saving factor in a moment of industrial crisis ? And just as the League of Nations has its origin in the general realisation of the appalling folly of war, may not a similar internal structure be built upon the ashes of internecine strife ? Although no certainty of success, therefore, awaits us if we venture on a bold policy, the hopes of it are good. Nor are the attractions of the policy of inaction particularly alluring. ‘Laissez-faire’ leads inevitably to Socialism. The only anti-Socialist

programme that has any chance of success is the organisation of a social and industrial structure which shall be neither Capitalist nor Socialist, but democratic; where the wage-earner shall be neither slave nor tyrant, but truly, and in the widest sense, partner.

## APPENDIX



## THE REORGANISATION OF GOVERNMENT DEPARTMENTS

THE activities we have just been discussing concern a number of Government Departments, and a great deal depends not only in the purely economic field but throughout the public service on an efficient and economical organisation of the administrative machine through which policy is carried out. The present organisation has largely grown up to meet the alteration and widening of the functions of the State which followed the Industrial Revolution and the Napoleonic wars. Few of our present Government Departments existed before that time. We are now passing through a period of even greater and more rapid social transformation. New Services and new Departments have sprung up on all sides during the last ten years. There has been a good deal of improvisation and haste; and uncertainty as to the permanence of new developments has caused gaps and overlapping which need readjusting. Moreover, it is becoming increasingly difficult to adhere to the generally recognised principle that a Department ought to correspond as nearly as possible to the specific function which it exists to carry out. While Government Departments were comparatively few in number their activities were wide enough to be covered by a broad and easily defined function of the State, but the

greater the subdivision of functions the harder it is to delimit each Department.

The existence of the problem is well recognised. A Committee of the Ministry of Reconstruction on the Machinery of Government, presided over by Lord Haldane, made an invaluable survey of the whole administrative field in 1918, but most of its work was done before the war was over. Sir Eric Geddes's Committee on National Expenditure made another comprehensive review in 1921, but its outlook was restricted to the financial aspect at a period of special stringency. Other bodies have reported on the administration of particular Services. The Government has recently adopted the recommendations of the Estimates Committee of the House of Commons regarding the re-classification of votes so as to show more clearly for what Services a Department is responsible, and grouping them under heads representing more accurately the major functions of Government. It would seem that the time has come, now that we can more definitely appreciate the present situation in relation to the future, to co-ordinate and complete the work already done.

It will probably be agreed that the general tendency of the present day is all in the direction of the further subdivision and multiplication of the functions and machinery of Government. A Ministry of Supplies to eliminate competition between departments for labour, materials, etc., to secure economy in technical staffs and contracting, and involving the absorption of the Office of Works and the Stationery Office, was strongly advocated by the Haldane Committee. A Ministry of Insurance to co-ordinate existing social insurance and having in view the possibility of 'All-in' insurance is

not beyond probability. The Department of Scientific and Industrial Research and the Civil Research Committee may well be leading towards the creation of a Ministry of Research and Information such as the Haldane Committee recommended. And we may not only expect the creation of new Departments in the future to deal with new Services, but we shall probably see an extension of the practice of associating the public more closely in the work of government by the setting up of such bodies as the Food Council.

A survey of the activities of existing Government Departments will, however, suggest certain broad heads under which they appear naturally to group themselves. It would seem at least worth inquiring whether all Government services could not be so grouped with a member of the Cabinet in charge of each group. The specialised and detailed work of each specific Service would then form a subordinate department in charge of a Minister or Under-Secretary, who would not be in the Cabinet. The advantages of such an arrangement would be twofold. It would, in the first place, remove much of the objection to the multiplication of Departments for narrow specific purposes, because they would all be co-ordinated under a limited number of wider heads. In the second place, it would make a smaller Cabinet possible, and by relieving Cabinet Ministers of much departmental work and giving them a wider field of action, it would increase the time and scope available to them for constructive thought. There is a particular need at the present time of achieving this second object. As the author of the article on the Cabinet in the *Encyclopædia Britannica* truly remarks, one of the principles on which it is based is "that a Ministry should

consist of statesmen holding the same political principles and identified with each other"; and, further, "that all Members of the Cabinet are jointly and severally responsible for all its measures, for if differences of opinion arise their existence is unknown so long as the Cabinet lasts—when publicly manifested, the Cabinet is at an end".

But the present pre-occupation of some Cabinet Ministers with administrative details is tending, firstly, to identify them exclusively with that particular Department (the Minister of Labour is a good example), so that they are constantly represented as fighting the heads of other Departments in the Cabinet; and, secondly, to create a certain differentiation in the public mind between the same man as a Cabinet Minister and as a departmental chief, thus separating him from his own branch of the Civil Service. As illustrations of this last point, we may mention two cases in Parliament during the session of 1925: the first when an attack was made on the Admiralty, dissociating it almost entirely from the First Lord; the second when the permanent officials of the Treasury rather than the Chancellor of the Exchequer were blamed for the return to the gold standard.

The argument for a scheme of the kind suggested is strengthened by the present absence of direct representation of many important services in the Cabinet. It would be desirable that every Department should be under the supervision of one or other of the members of the Cabinet. The only exceptions should be what may be called 'business' Departments, such as the Post Office and perhaps the Office of Works, or a Ministry of Supplies, where the State acts directly as employer-producer. For reasons which are admirably stated by

Lord Haldane's Committee (page 40) and are to some extent obvious, it is undesirable that State enterprises should be run in conjunction with Departments whose business it is to regulate and control private enterprises.

There are two groups of Services of special difficulty and importance, because it is within them that most change is taking place. These are, firstly, what may be called the Social Services, which are primarily concerned with the welfare of the *persons* who make up the community; and secondly, the Economic Services, which are primarily concerned with the production and distribution of *articles* required for the satisfaction of material needs.

The *Social Services* comprise the Board of Education, which looks after cultural welfare; the Ministry of Health, which looks after physical welfare; and the Ministry of Labour, which looks after industrial welfare.

It is unnecessary to say much about education and health, since these have long been accepted as necessary functions of Government. Apart from some minor questions involving the allocation of responsibility for debateable border-line duties such as Reformatory and Industrial Schools, Juvenile Unemployment Centres, the health of school children, education in the fighting services and the supervision of museums, most of which are perhaps best dealt with by Joint Committees of the Department concerned, no substantial alteration of the functions of the *Board of Education* seem called for. The *Ministry of Health* still requires to absorb or share larger responsibility for a number of health services now performed by other departments, but the only important change which might be suggested is with regard to its relation to Local Administration.

As direct heir of the Local Government Board, the Ministry of Health became responsible for the general control of the machinery of Local Government (financial control, Private Bill Legislation, Rating and Valuation, etc.), which involve considerations of policy both different in nature from and wider in scope than the specific function of a Ministry of Health. If, under the Local Government Board, there was danger lest health services should suffer from subordination to the administration of Local Government generally, there might be a similar danger lest the administration of Local Government in aspects other than health should be lost sight of. There seems no immediate reason to fear this, but these Local Government duties have distinct features of their own, and it would not seem unreasonable to suggest that they should be undertaken by a separate Department linked to the Home Office as the Ministry responsible for domestic affairs in their more general aspects.

The *Ministry of Labour* requires examination in rather more detail, since the necessity for its existence is not so firmly established as that for Ministries of Education and Health, while the essential social nature of its functions may not be at first sight obvious.

The most comprehensive definition of the purpose and scope of the Ministry of Labour is that suggested by the Machinery of Government Committee for an almost identical Ministry of Employment, namely : "The supervising and controlling of the conditions of employment, in so far as public cognisance is taken of them ; and the maintenance of whatever may be prescribed from time to time as the national minimum standard of life for the employed population—including

not only wages, but also hours, amenity, and continuity of employment."

Its main duties are :

- (i.) To assist the maintenance of peace in industry (Industrial Relations Department).
- (ii.) To assist the distribution of employment, and conversely to deal with unemployment (Employment and Insurance Department).
- (iii.) The regulation of wage conditions in accordance with the minimum social standard prescribed by Parliament (Trade Boards Division).
- (iv.) Co-operation with other countries through the International Labour Office.

The function of the Ministry is essentially to correlate economic facts and social aspirations. Whereas it is the business of the Board of Trade to take the economic view, it is the business of the Ministry of Labour to take the social view. Thus, while the Board of Trade is primarily concerned with assisting to produce conditions of financial prosperity in commerce and industry, the Ministry of Labour is primarily concerned with ensuring that the persons whose contribution to that financial prosperity is their labour are employed under conditions corresponding to the standard set by the conscience of the community. The two sets of duties should be regarded as complementary, having for their common objective a state of affairs in which commercial and industrial prosperity is combined with the economic independence of the wage-earner. The Geddes Committee recommended the abolition of the Ministry of Labour by the amalgamation of Unemployment Insurance (the administration of which accounts for the great

bulk of the Ministry of Labour's staff and expenses) with Health Insurance, the abolition of Labour Exchanges and the transference of remaining duties to the Board of Trade. The effect of this would undoubtedly be definitely to suggest the inferiority of the social as distinct from the economic point of view. Clearly there would be no place for a Ministry of Labour under a system of '*laissez-faire*', but in present circumstances it seems essential that a Department should exist with the object both of developing the industrial side of social policy and of reconciling the comparatively new ideas involved with considerations of economic policy. Assuming that this point of view is accepted and that a Ministry of Labour may be regarded as a permanent feature of our machinery of Government, the question arises as to the desirability of transferring to it certain services which are now administered by other Departments. The most important of these are the Factory Acts and Workmen's Compensation Acts (now under the Home Office), portions of the Merchant Shipping Acts (now under the Board of Trade), and the statutory provisions for safety and welfare in the mining industry (now under the Mines Department). All these are services primarily concerned with the regulation of conditions of labour. Juvenile Unemployment, the relation of Poor Relief to Unemployment Insurance, the status of the Unemployment Grants Committee, are among matters which ought also to receive further consideration.

The second group of services, to which we have already referred as the *Economic Services*, comprise the functions now exercised by the Board of Trade, the Ministry of Transport, the Departments of Overseas Trade, the Mines Department, the Board of Agriculture

and Fisheries, the Forestry Commission, and the Development Commission.

Before the War the tendency was for the *Board of Trade* to attract to itself all the economic functions of Government, and a great many of the social functions, such as the regulation of industrial conditions which had direct relation to economic factors. (Factories and Mines Act were the chief exceptions.)

The great increase in the Government control of industry and trade during the War, and of the regulation of conditions of labour, resulted in an increase of business which was thought too great for one Ministry, with the result that many of its functions were devolved on new Departments.

The establishment of the Ministry of Labour has relieved the Board of Trade of its social duties, except with regard to merchant seamen, and of a good deal of its statistical work.

The establishment of the *Ministry of Transport* has relieved the Board of its duties regarding railways and roads, but it might be desirable that it should reabsorb them.

The establishment of the *Department of Overseas Trade* has given a quasi-independent status to the task of stimulating trade with the Empire and foreign countries, together with the control of the Commercial Diplomatic Service and Trade Commissioner Service abroad, and the necessary liaison with the Foreign Office. It is time that the need for a separate Department should be re-examined.

A somewhat similar partial control of a class of duties, which did not (though it might well have done) belong to the Board before the War, has been added to it in

respect of the supervision of the mining industry. The *Department of Mines* was formed from the Mines Department of the Home Office, but is subordinate to the Board of Trade, with a special relation to the Ministry of Labour. This Department might well disappear if its social duties were taken over by the Ministry of Labour, and its economic duties absorbed by the Board of Trade.

The direct functions carried out by the Board of Trade to-day mainly concern the stimulation of commerce and industry on the one hand (*e.g.* safeguarding of industries), and its regulation in a purely economic and legal sense (*e.g.* it deals with bankruptcy, adulteration of food, the inspection of weights and measures, patents and trade marks) on the other. Its duties in relation to ports and shipping not only cover these main concerns, but go much beyond. It looks after the safety of life at sea, *e.g.* coastguards, lighthouses and buoys, seaworthiness of vessels, life-saving appliances on board ship; also wrecks, salvage, and quarantine. It deals with nearly all questions affecting merchant seamen, and it is worth considering whether certain social aspects of this work ought not to be transferred to the Ministry of Labour.

The *Board of Agriculture* fulfils duties which in principle are very similar in its particular field to those of the Board of Trade. Its functions are almost exclusively economic. It exists to stimulate agriculture (*e.g.* sugar-beet subsidy, small holdings and allotments, experimental farms, drainage, etc.), to prevent fraud and unnecessary loss (*e.g.* Merchandise Marks Acts, Sale of Food and Drugs, Diseases of Animals Acts, Markets and Fairs Acts, etc.), and to deal with certain specialised legal business (*e.g.* tithe, glebe, etc.).

Its contact with the Board of Trade is closest in regard to Fisheries, which up till 1903 were actually administered by that Department. There is a certain demand for an independent *Ministry of Fisheries* which requires investigating.

The *Forestry Commission* is a quasi-independent Department whose relations to the Board and to Parliament do not seem either very clear or satisfactory.

It may at first sight seem a startling proposal to make that the Departments in each of these groups should be placed under one head, but if, as we believe, each represents a true function of Government, this is the only right course. We should propose a Secretary of State for Social Affairs under whom would be Ministries of Education, Health, Labour, and maybe some day of Insurance, and a Secretary of State for *Economic Affairs* under whom would be a Ministry of Commerce and Industry (which would no doubt still be called the Board of Trade), a Ministry of Agriculture (with whom the Forestry Commission might be joined), and possibly Ministries of Fisheries, Overseas Trade, Transport, and of Research and Information.

In addition to Departments for Social and Economic Affairs we shall still need a *Home Office* to carry out the remaining domestic services. These, though of great importance and variety, can mostly be classed as duties of general administration or constitutional form, and duties relating to the preservation of public order and decency. The close connection of the Home Office with the administration of criminal law and its responsibility for police and prisons led the Haldane Committee to recommend its definite recognition as a Ministry of Justice, and the transference to it of certain of the duties

of the Lord Chancellor. It is impossible for a layman to form an opinion of any value as to the division of functions between the Home Office and the Lord Chancellor, but these two Departments would between them take charge of all matters where the taking of legal proceedings is the principal consideration, or where punishment and the consequences of punishment are concerned. The Home Office should also, as the central and residuary authority in civil matters, take over the duties concerning the machinery of local administration now in the hands of the Ministry of Health. On the other hand, the question ought to be examined as to whether the Home Office's duties under the Factory, Truck, Workmen's Compensation and Shops Acts are not more appropriate to the Ministry of Labour, whether those concerning reformatory and industrial schools might not be placed under the Board of Education, and whether the Ministry of Health ought not to take over such matters as burials, vivisection, child welfare, etc.

The Home Office reorganised on such lines would probably be appropriately divided into two sub-divisions, one dealing with Local Government and the other with Public Security.

As regards *Foreign Affairs* no change is necessary, since relations with foreign Governments are clearly a distinct function of the State. This would provide us with a fourth Secretary of State. The suggestion has been made that all external affairs should be grouped together, but this is scarcely practicable, if only because whoever is in charge of Foreign Affairs must devote a great deal of his time to negotiations in which he plays a personal part and which involve frequent absences abroad. At the same time it is worth noticing that the

border-line between Foreign and Imperial affairs is becoming more and more difficult to define. There are, for instance, independent countries with whom we have more than ordinarily close relations, such as Egypt ; then, there are countries over whom we have mandatory responsibilities involving relations with foreign States through the League of Nations, and varying in status from the quasi-independence of Iraq to the virtual annexation of certain Pacific islands ; further, there is the increasing independence of the Dominions, whose treatment becomes every day more nearly the same as that of ordinary foreign States. It might be worth considering the possibility of setting up a Foreign and Imperial Affairs Committee on the lines of the Committee of Imperial Defence which would serve the double purpose of linking those two Services together, and of providing a means of associating the Dominions more closely with foreign policy.

*Imperial Affairs* could, on the other hand, reasonably be placed in charge of one (a fifth) Secretary of State, under whom there would be a Minister for the Dominions, a Minister for India, and Minister for Colonies, Mandates, and Protectorates.

We next come to the *Fighting Services*, whose co-ordination under a (sixth) Secretary of State for Defence has already been the subject of considerable discussion. The Haldane Committee expressed themselves unable to give this subject adequate consideration, owing to the war conditions still existing at the time of their examination. The Geddes Committee, on the other hand, entered a strong recommendation in favour of a single Ministry of Defence, on the grounds of the economies to be effected by the “ complete co-ordination in supply,

transport, medical, and other services". They pointed out that the theory of such a Ministry existed in embryo in the Committee of Imperial Defence, which is now joined to the offices of the Cabinet as a subordinate Department of the Treasury. No alteration of the existing status of the Committee of Imperial Defence, which has certain definite advantages, seems, however, necessary, but the Secretary of State for Defence should be Vice-Chairman of the Committee. Nor need the independence of the Services be interfered with. The First Lord of the Admiralty, the Chairman of the Army Council, and the Chairman of the Air Council might be Ministers subordinate to the Secretary of State for Defence. The establishment of a Board of Munitions and Supplies as a fourth department (for common services) would very probably be desirable unless such services should be absorbed in a general Ministry of Supplies.

Finally, there are the *Financial Services*, which already constitute a recognised group of Departments. It comprises the Treasury itself and a number of associated or subordinate Departments such as Inland Revenue, Customs and Excise, Exchequer and Audit, and several miscellaneous offices of a financial or general character, for which the Chancellor of the Exchequer is generally responsible.

These seven heads of the great divisions of the State, together with the Prime Minister, the Lord Chancellor, the Lord President of the Council, the Secretary of State for Scotland, and the Lord Privy Seal as Minister without Portfolio, would make possible a Cabinet of twelve members, that is to say, of little more than half the size of the usual Cabinet of recent years.

Such a reorganisation as is here suggested cannot, of course, claim to be more than a very tentative sketch of the general lines along which improvement might be sought. Many of the uncertainties alluded to, and many of the proposals put forward, have already been considered. Other suggestions might well be made. There is room for a great variety of opinion, and it would be presumptuous to be dogmatic on a subject of such vast extent and such detailed complexity. The Departments themselves, however, with their strong individual points of view, are not necessarily the best judges of their own functions. There is need for examination by an independent body, which can look at the problem from the outside, and as a whole. Our endeavour here has been to show that there is a case for such an inquiry into the possibilities of increased efficiency and greater economy, through the better ordering of the administrative machine, and through a smaller Cabinet to direct its activities.



## NOTES



## NOTE I

EXTRACT FROM REPORT ON THE STABILISATION OF AGRICULTURAL PRICES (Economic Series No. 2), by A. W. ASHBY, R. R. ENFIELD, and E. M. H. LLOYD, presented to the Minister of Agriculture, January 1925.

### (1) *Changes in the General Level of Agricultural Prices owing to Monetary Causes*

THE history of agriculture since the Napoleonic wars, disregarding minor booms and depressions, may roughly be divided into five periods of alternating depression and prosperity, namely, 1820–1850, 1850–1874, 1874–1896, 1896–1920, and 1920–1924. A study of these periods can leave little doubt as to the disastrous consequences to agriculture of the variation in the purchasing power of money. Diagram I. shows the general course of prices in the case of wheat, barley, and oats, compared with that of an index figure representing agricultural produce as a whole,<sup>1</sup> and an index figure representing the prices of general wholesale commodities based upon Sauerbeck's figures. The 'general commodity' curve

<sup>1</sup> The agricultural index is the weighted mean of Groups IIIA and IIIB (animal and vegetable foods) of the index numbers of wholesale prices contained in the Abstract of Labour Statistics published by the Board of Trade.

may be taken, for the reasons which have been given above, as an indication of the variation in the purchasing power of money. It is only necessary to glance at this diagram to see how close is the similarity between the two sets of curves. This fact alone is sufficient to illustrate the monetary origin of these fluctuations in agricultural prices. Other influences of course contributed, particularly in the earlier part of the nineteenth century, when good and bad harvests had enormous effect on the prices of cereals. But throughout the century it is clear that the *character* of the respective price curves is the same, and that the upward and downward movements in each, generally speaking, have coincided.

It is true that in each period of agricultural depression there have been a few persons who realised that the depression was due more to an alteration in the purchasing power of money than to an alteration in the relation of supply to demand in respect of agricultural commodities. For example, Cobbett, in his *Rural Rides*, makes frequent reference to the monetary causes of the depression which followed the Napoleonic wars, and Lord John Russell and others also called attention to the same point. Even amongst farmers this view was not unknown. Before the House of Lords Committee of 1837 a large farmer and miller, Mr. John Lewin, said :<sup>1</sup>

“ We have always had better prices when the currency has been expanded, and when it is contracted they are lower. . . . I have watched for twenty years the bank circulation ; the issue of the country’s notes expands and contracts with it. When the Bank of England has

<sup>1</sup> Quoted from memorandum by R. L. Everett. See C. 8540/1897.

increased its issues, our prices have gone up ; when they have contracted, our prices have gone down."

In the depression which followed 1874 the monetary causes at the root of the falling prices were referred to by Lord Beaconsfield in a speech in the House of Lords in 1879 and by Mr. Goschen in the House of Commons in 1883. Nevertheless it is true to say that throughout the nineteenth century, not only agriculturists as a whole, but the majority of those who have concerned themselves with the development of agricultural policy, have ignored the monetary explanation of these price movements. Falling prices have almost always been attributed to foreign competition, and have led to a demand for protection. Even as far back as 1820, when England was a highly protected country, some people appear to have ascribed the depression to cheap foreign imports. For more than a century fear of the foreigner has been the farmer's obsession and protection has been his panacea, a circumstance which has done more to obscure the real causes of bad or good times than possibly any other. Even to-day there is little doubt that many farmers attribute the depression of 1920 to 1923 to the competition of free foreign imports.

In the past hundred years the three severe and protracted depressions—the first following the Napoleonic wars, the second after 1873, and the third following the European War—have in each case been due to falling prices. We do not propose to give a detailed analysis of these periods of agricultural history. It is sufficient to mention that in each there was a profound disturbance of monetary conditions ; in 1819 an Act of Parliament restoring the gold standard brought about a drastic restriction of the monetary circulation, as a result of

which the prices of all commodities, including the products of agriculture, declined very rapidly. In 1874 the adoption of a gold currency by many countries of the world caused a shortage of gold, with the result that prices fell in all the gold standard countries. In 1920 the policy of securing a gradual return from a paper to a gold currency was put into force with a similar result on prices. We need not describe in detail how these events worked out in the particular case of agriculture ; the depression of 1920–23 has been dealt with elsewhere,<sup>1</sup> and we attach to this report a memorandum setting out more fully the connexion between monetary events and the condition of agriculture between 1874 and 1896. All we wish to do here is to call attention to the fact that in each of these three periods the depression of agriculture was brought about by a general fall in prices, and that these price movements had their origin primarily in monetary causes.

In the crisis which followed the Napoleonic wars, and in that after 1874, agriculture was reduced in many districts to a pitiable condition. In both cases much agricultural land was abandoned or greatly deteriorated, and the hardship caused to the rural population could hardly be exaggerated. If in the case of the depression of 1920–23 the losses and suffering were less severe in spite of the very rapid fall in prices, it is because the crisis was preceded by a period of very rapidly rising prices during which large profits were made by farmers. The majority were thus enabled to survive the severe slump which succeeded it.

It is, however, only necessary to study the history of agriculture during the nineteenth century to see that

<sup>1</sup> *The Agricultural Crisis, 1920–23*, by R. R. Enfield.

the demoralisation and other ill-effects of a depression did not cease with the end of the period of falling prices. The alterations in the character of farming, the deterioration of large tracts of land, and the demoralisation of the working population, have left their marks on the industry long after the causes which brought them about have ceased to operate. In short, the history of the nineteenth century seems to show, in a manner which is beyond dispute, that variations in the purchasing power of money have been responsible for greater misfortune to agriculture than has arisen from *any other single cause*.

#### (2) *Consequences of Monetary Instability*

Agriculture labours under certain disabilities with which it is permanently associated and which make adjustment to rapidly changing conditions more difficult than is the case with many other industries. The chief of these are—the fact that the costs of production are mainly incurred by the farmer a year or more before he sells his produce, and that he is unable to adjust production to demand as easily as in many other industries. Furthermore, when prices are falling over comparatively long periods, as in 1920, '21, and '22, or between 1874 and 1896, the fall in costs of production tends to lag behind the fall in produce prices. The result of this is to increase the farmer's difficulties in a period of falling prices by disturbing to the farmer's disadvantage the normal relations between produce prices and costs, and thus diminishing or entirely absorbing his margin of profit.

These consequences are of most importance in connection with a fall in prices arising out of monetary causes. The effect may be summarised broadly as follows :

The farmer lays out his money from the beginning

of the season onwards, in such farm requisites as he may require : seeds, fertilisers, feeding stuffs, labour, and machinery, and in the costs of ploughing and sowing, etc. When he comes to sell his produce at the end of the season, he finds that prices all round have fallen, with the consequence that he makes greatly diminished profits or no profits at all. In the first year of falling prices the farmer probably accepts these events mainly as the results of a 'bad season,' and endeavours to make the best of it. In the following year he probably finds that the prices of such requisites as feeding stuffs, fertilisers, seeds, and machinery have fallen, while rent and wages have remained fairly stationary. But the cheaper costs of the former avail him little, if at the end of the second year he is confronted with a further drop in produce prices. Gradually, as the process continues, the cost of production *relative to the price of the produce* increases, until conditions are reached which become intolerable ; the farmer must then reduce wages, or obtain a reduction of rent, or become bankrupt. A fall in wages has normally followed a fall in prices ; by repeated readjustments wages have been brought down to a point corresponding with the level of prices ruling at the moment when the adjustment is made, but such readjustments have generally *followed* and not preceded the fall in produce prices, so that in a prolonged period of falling prices the average cost of labour in relation to produce prices has remained relatively high.<sup>1</sup> It is here, therefore, that the farmer has felt the consequence of falling prices most acutely. When economic pressure arising in the manner described above has reduced him to a point of extreme difficulty, he has justly sought a reduc-

<sup>1</sup> When prices are rising the opposite case is usually found.

tion of rents, and in this matter he has been dependent very largely on the goodwill and common sense of the landlord.

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A further consequence of a falling price level is the laying down of arable land to grass. The relationship between the price level and the arable area under cultivation is, however, far from being a simple subject, and it is not our intention to analyse this matter in detail. It is sufficient to record as a matter of historical fact that in the two periods from 1873 to 1896, and after 1920, falling prices have been accompanied by a reduction in the arable area, and consequently by an increase of unemployment.<sup>1</sup> Between 1870 and 1896 the arable area in England and Wales fell from 14,849,000 acres to 12,335,000 acres.

There remains to be mentioned the effect of monetary changes on long-period indebtedness. When prices are falling, long-priced contracts of the type of mortgages redeemable over a period of several years tend to become an increasing burden to the mortgagor as the purchasing power of money rises. For it is obvious that contracts involving payments in money are entered into on the assumption that the purchasing power of money will remain the same as at the time when the engagements to pay were contracted. If this does not happen, but the purchasing power of money continually rises, an entirely unexpected and undeserved burden is imposed on the debtor to the advantage of the creditor.<sup>2</sup>

<sup>1</sup> In this connection see Sir Daniel Hall's memorandum in *Is Unemployment Inevitable?*

<sup>2</sup> It is, of course, equally true that in a period of rising prices the burden on the long-term debtor is reduced, to the disadvantage of his creditor.

This consequence of a falling price level played an important part in the agricultural crisis in America which developed during the period of monetary deflation following the spring of 1920. In the United Kingdom, farmers who bought their farms in 1919 and 1920, raising the purchase money by way of mortgages on the then value of their holdings, undoubtedly suffered in the same manner. As the price level continuously fell after 1920, the farmer found that while the price of things he bought and sold declined from their 1920 level, the payments in respect of the mortgage remained fixed at the former level, thereby involving an increasingly heavy charge on his undertaking to meet this item of his general costs.

Such, in briefest outline, are the economic consequences to the farmer of a falling price level. We do not suggest that in every period of falling prices the conditions of agriculture exactly conform to the above description ; but, broadly speaking, the farmer during such periods is subject in a greater or less degree to economic pressure arising in this manner. It does not seriously matter whether the fall in the price level is rapid as in 1920 to 1923, or slow as in 1874 to 1896. The important point is that falling prices are bound to disturb the relation between cost of production and produce prices ; to set up conditions of economic ‘friction’ which cause serious hardship and losses to those engaged in the industry ; and if the process is protracted over a long period, as it was after 1820 and after 1874, ultimately to reduce the condition of agriculture to a state of stagnation.

To sum up. While it would be foolish to overlook the influence of seasonal and other minor causes which

affect agriculture from year to year, and while the development of foreign countries has undoubtedly profoundly affected the course of British agriculture during the past century, nevertheless the sudden changes from prosperity to depression and from depression to prosperity, the 'long period' ups and downs, which have been so marked a feature of British agricultural history, are capable of an almost exclusively monetary interpretation; for these it seems hardly necessary to seek any other cause.

Thus the history of agriculture in the nineteenth century provides striking support to the doctrine of monetary stabilisation which, though approached from a different angle, has in recent times been put forward as a remedy for unemployment and general industrial depression.

## NOTE II

### EXTRACT FROM THE FIRST REPORT OF THE CUNLIFFE COMMITTEE ON CURRENCY AND FOREIGN EXCHANGES.

“ THIS process has had results of such far-reaching importance that it may be useful to set out in detail the manner in which it operates. Suppose, for example, that in a given week the Government require £10,000,000 over and above the receipts from taxation and loans from the public. They apply for an advance from the Bank of England, which by a book entry places the amount required to the credit of Public Deposits in the same way as any other banker credits the account of a customer when he grants him temporary accommodation. The amount is then paid out to contractors and other Government creditors, and passes, when the cheques are cleared, to the credit of their bankers in the books of the Bank of England—in other words, is transferred from Public to ‘ Other ’ Deposits, the effect of the whole transaction thus being to increase by £10,000,000 the purchasing power in the hands of the public in the form of deposits in the Joint Stock Banks and the bankers’ cash at the Bank of England by the same amount. The bankers’ liabilities to depositors having thus increased by £10,000,000 and their cash

reserves by an equal amount, their proportion of cash to liabilities (which was normally before the War something under 20 per cent) is improved, with the result that they are in a position to make advances to their customers to an amount equal to four or five times the sum added to their cash reserves, or, in the absence of demand for such accommodation, to increase their investments by the difference between the cash received and the proportion they require to hold against the increase of their deposit liabilities. Since the outbreak of war it is the second procedure which has in the main been followed, the surplus cash having been used to subscribe for Treasury Bills and other Government securities. The money so subscribed has again been spent by the Government, and returned, in the manner above described, to the bankers' cash balances, the process being repeated again and again until each £10,000,000 originally advanced by the Bank of England has created new deposits representing new purchasing power to several times that amount."

### NOTE III

#### THE OWNERSHIP OF BRITISH INDUSTRIAL CAPITAL

By permission of the *Economist* we quote from a series of articles published by that paper the following information :

“ . . . While anything like an exhaustive survey of the subject would thus appear to be ruled out, there is no reason why a process of careful sampling should not yield useful results. The practice of judging bulk by sample is universal among merchants, and familiar to all statisticians. Provided the sample be not too small a part of the whole, and be taken without bias, it can legitimately form the basis of conclusions which, while falling many degrees short of exactitude, are vastly better than no conclusions at all. Applying the method of sampling to British joint-stock capital, we have examined the Somerset House files of a limited number of the best-known public companies of Great Britain, representing as many industries as possible. The results of the inquiry possess considerable interest.

“ The companies fall into two groups, as follows :

“ Group 1.—Large-size Concerns :—Imperial Tobacoo

Company, Courtaulds, Anglo-Persian, Brunner Mond, Vickers, Dunlop Rubber, Cunard Steamship. Total paid-up capital examined,<sup>1</sup> £119½ millions.

“Group 2.—Concerns of Moderate Size: General Electric Company, Spillers’ Milling, Phoenix Assurance, Ebbw Vale Steel, Bass, Ratcliff & Gretton, Marconi’s Wireless Telegraph, English Sewing Cotton, Debenture Corporation, Cairn Line, Rover Company, Savoy Hotel. Total paid-up capital examined,<sup>1</sup> £32 millions.

“Two sets of figures were taken in each case, viz.: Series A : Every hundredth shareholding (approximately) in each company in Group 1, and every fortieth shareholding (approximately) in Group 2 ; Series B : All holdings of 10,000 shares (or £10,000 stock) or over.

“We may first see what light is shed by these investigations on the question of the magnitude of average individual holdings of capital. The table on p. 262 shows the number of shareholders (to the nearest hundred in each case) in relation to the total paid-up capital, as regards companies in Group 1. The figures in the last column are instructive. The highest average holding—if the Anglo-Persian ordinary shares, of which a large block is held by the British Government, be omitted—is no more than £430, while the lowest (apart from the figures of Vickers and Dunlop, which are both affected by a recent writing down of capital) amounts to £260, and the mean figure for the £120 millions of capital examined to £310. The average holding of preference capital comes out at £350, and of ordinary at £291. The table on p. 263 shows similar figures. We see that the aggregate capital of the eighteen concerns, £152 millions, is shared among more

<sup>1</sup> According to last statement filed in each case.

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than 500,000 shareholders, each holding £301 on the average, and have come to the tentative conclusion that the best-known British companies tend to draw their individual supplies of capital from a multitude of small streams rather than a few vast reservoirs.

### AVERAGE SHAREHOLDING—GROUP I

Name of Company.	Class of Capital.	Total Paid-up Capital.	Total Shareholders.	Average Holding.
Imperial Tobacco . .	Preference	£ 12,857,936	29,700	£ 430
	Ordinary	29,951,697	77,200	388
Courtaulds . .	Total .	42,809,633	106,900	401
	Preference	8,000,000	19,700	406
Anglo-Persian Oil . .	Ordinary	12,000,000	28,200	426
	Total .	20,000,000	47,900	417
Brunner Mond . .	Preference	10,500,000	40,400	260
	Ordinary	8,950,000	17,100	524
Vickers . .	Total .	19,450,000	57,500	338
	Preference	4,000,000	11,000	364
Dunlop Rubber . .	Ordinary	9,749,303	26,200	372
	Total .	13,749,303	37,200	370
Cunard Steamship . .	Preference	8,363,807	24,000	348
	Ordinary	4,105,161	46,400	89
Total . .	Total .	12,468,968	70,400	182
	Ordinary	6,723,042	51,600	130
	Ordinary	4,456,189	14,000	318
	..	119,657,135	385,500	310

"In the first place we may inquire as to how shareholdings are distributed as between small, moderate, and large individual amounts. Is there any particular type of holding more popular with the British investor than

any other? To use a technical term, what is the 'Mode' as distinct from the 'Mean' in this case? The

#### AVERAGE SHAREHOLDING—GROUP II

Name of Company.	Class of Capital.	Total Paid-up Capital.	Total Share-holders.	Average Holding.
General Electric Co.	Preferencee	£ 3,600,000	13,000	277
	Ordinary	2,141,975	10,100	202
	Total .	5,741,975	23,100	249
Spillers' Milling + .	Preferencee	1,159,986	2,400	483
	Ordinary	2,643,688	8,300	318
	Total .	3,803,674	10,700	356
Phœnix Assurance .	Ordinary	3,792,795	8,500	446
Ebbw Vale Steel .	Preferencee	1,200,000	4,400	273
	Ordinary	2,500,000	7,800	321
	Total .	3,700,000	12,200	303
Bass, Ratcliff & Gretton	Preferencee	1,360,000	2,000	680
	Ordinary	2,040,000	1,900	1074
	Total .	3,400,000	3,900	870
Mareoni's Wireless Tel.	Ordinary	3,249,913	24,600	132
English Sewing Cotton	Preferencee	1,000,000	6,300	159
	Ordinary	2,000,000	9,700	206
	Total .	3,000,000	16,000	188
Debenture Corporation	Preferencee	1,000,000	2,800	357
	Ordinary	1,000,000	2,000	500
	Total .	2,000,000	4,800	417
Cairn Line . . Rover Company . .	Ordinary	1,200,000	2,900	414
	Ordinary	1,050,000	8,300	127
	Preferencee	250,000	1,000	250
Savoy Hotel . .	Ordinary	738,934	2,400	308
	Total .	988,934	3,400	291
	..	31,927,291	118,400	270

following table throws light on these matters, as regards the large concerns in Group I :—

DISTRIBUTION OF SHAREHOLDINGS—GROUP I

Company.	Total Shareholders.	Proportion of Total Shareholders, whose Holdings are—						Total Holdings.
		Less than £100.	£100 to £500.	£500 to £1000.	£1000 to £1500.	£1500 to £10,000.	£10,000 or Over.*	
Imperial Tobacco	106,900	% 36·7	% 48·4	% 8·3	% 3·2	% 3·1	% 0·3	100
Courtaulds . . .	47,900	42·6	48·1	4·8	2·7	1·6	0·2	100
Anglo-Persian Oil .	57,500	38·8	48·6	8·0	2·6	2·0	0·03	100
Brunner Mond . . .	37,200	29·2	55·0	10·2	3·1	2·3	0·2	100
Vickers . . .	70,400	31·3	54·2	8·1	3·2	3·1	0·07	100
Dunlop Rubber . .	51,600	28·8	52·0	9·9	4·8	4·2	0·3	100
Cunard Steamship	14,000	25·0	47·4	12·1	3·5	11·7	0·3	100
Total — Large-size concerns . . .	385,500	34·6	50·6	8·3	3·3	3·0	0·2	100

\* This column is based on Series B data.

As the figures are based on a sample of one holding in every hundred, precise exactitude cannot be claimed for them ; but certain broad inferences may nevertheless be drawn with fair confidence. In every case we find shareholders ' crowded ' at the lower levels. Taking the seven companies as a whole, it will be seen that one-third of the total holdings are individually less than £100 (par value), 85 per cent are less than £500, and 93½ per cent less than £1000. The precise proportions vary from company to company, but the tendency is the same throughout. The corresponding figures for the concerns with a moderate capital are shown in the table opposite.

"In the case of these eleven companies, about 38 per cent of the total holdings are less than £100, 88 per cent less than £500, and 95 per cent less than £1000. The spread as between different companies is somewhat wider than

in Group 1, but the averages throughout show a remarkable degree of similarity. That of the total investors in the eighteen British companies over one-third own less than £100 of capital will come as a surprise to most people. These investors are probably 'small capitalists'

## DISTRIBUTION OF SHAREHOLDINGS—GROUP II

Company.	Total Share-holders.	Proportion of Total Shareholders, whose Holdings are—						Total Holdings.
		Less than £100.	£100 to £500.	£500 to £1000.	£1000 to £1500.	£1,500 to £10,000.	£10,000 or Over.*	
General Electric Co.	23,100	34.4	55.9	6.6	1.9	1.1	0.09	100
Spillers' Milling .	10,700	26.8	58.9	8.2	2.1	3.7	0.3	100
Phoenix Assurance	8,500	49.0	37.0	7.6	2.2	4.0	0.2	100
Ebbw Vale Steel .	12,200	29.5	58.9	6.7	3.4	1.4	0.1	100
Bass, Ratcliff & Gretton	3,900	15.5	61.9	12.9	2.6	6.4	0.7	100
Mareconi's Wireless Tel.	24,600	54.0	37.0	6.3	1.8	0.9	0.03	100
English Sewing Cotton	16,000	46.0	46.6	5.8	0.6	1.0	0.02	100
Debenture Corpora-tion	4,800	15.2	50.4	17.7	10.1	6.4	0.2	100
Cairn Line . .	2,900	20.4	64.6	3.4	6.8	4.5	0.3	100
Rover Company .	8,300	31.8	53.8	5.5	5.5	3.4	..	100
Savoy Hotel . .	3,400	22.9	60.0	8.6	5.7	2.7	0.1	100
Total—Moderate-size concerns .	118,400	37.8	50.0	7.2	2.7	2.2	0.1	100
Total—All concerns	503,900	35.3	50.4	8.1	3.1	2.9	0.2	100

\* This column is based on Series B data.

in appearance and in fact. The purchase of £100 of shares on the Stock Exchange may cost as much as £2 10s. in fees, commission, and stamps, and the large investor who is 'spreading his risks' over a number of companies usually regards £100 as an economically small holding, for this and other reasons. The shares of some concerns in both groups stand, of course, at a

substantial premium to-day, but others are at a discount, while in several instances issues of bonus shares have gone to swell the total outstanding capital in recent years.

"The main conclusions reached may now be briefly summarised, with the proviso that, based as they are on a very small sample of the total British industrial capital quoted on the Stock Exchange (which itself is but a part of the total capital of the country), they are necessarily tentative. It has been shown that the shareholders in the concerns selected are a very numerous body, running in some cases into tens of thousands. Their numbers, in fact, must frequently exceed those of the workers employed by the firms in question, but this needs to be interpreted with due regard to the fact that the 'capitalist' may invest his resources in many concerns, while the worker must sell *his* to but one. The average shareholding is about £300, and is somewhat lower in the case of the ordinary than of preference shares. About one-third of the total holdings are of amounts less than £100, and about 85 per cent of amounts of less than £500. Only in very exceptional instances do large shareholdings, of £10,000 or over, possess a majority voting interest. More than nine-tenths of the total capital is in British ownership, though the attainment of Dominion status by the Irish Free State has transferred anything up to 5 per cent of the whole from the 'domestic' to the 'Empire' category, while certain companies have not unimportant shareholding connections with allied concerns overseas."

## NOTE IV

### EXISTING MACHINERY FOR THE AVOIDANCE AND SETTLEMENT OF TRADE DISPUTES

#### *Conciliation*

Under the Conciliation Act 1896, the responsible Minister (the Minister of Labour since the New Secretaries and Ministries Act 1916) may (1) take such steps as he may think fit to bring together two parties to a dispute with a view to amicable settlement; or (2) on the application of either of the parties concerned appoint a person or persons as conciliator or board of conciliation; or (3) on the application of both the parties concerned appoint an arbitrator.

#### *Arbitration*

Under the Industrial Courts Act 1919 he may further, if both parties consent, refer the matter for settlement to arbitration of (1) the Industrial Court; (2) one or more persons appointed by him; (3) a board nominated by the parties to the dispute, with a chairman appointed by him.

#### *Enquiry*

Under the Conciliation Act 1896 he may further, whether the parties concerned apply to him or not,

refer the matter of any dispute to a Court of Enquiry appointed by himself. Where, however, voluntary machinery exists in any trade for conciliation or arbitration, he may only appoint this court after the failure of such machinery.

### *Joint Industrial Councils*

Joint Industrial Councils consisting of representatives of employees and workers (and in some cases of technical staffs) exist in fifty-seven industries. The chairman is usually independent, but in some cases he may belong to either party and in some there are two chairmen. Membership differs in numbers from 14 to 75. The constitutions and provisions for procedure as well as the powers vary in each case. The geographical and other conditions of the industry determine the nature, number, and powers of the district councils set up by the National Joint Industrial Councils. In some trades there are no district councils. In four trades the Joint Councils or their district organisations do not discuss wages. Twenty-five Joint Industrial Councils have broken down after being set up, the most common cause of which was the attempt to cover too wide an industrial field. Community of interest was lacking to the representatives of either side.

The National Wages Board of the Railways is a special case of Joint Industrial Councils on which consumers are represented in addition to the workers and the employers. The four representatives are nominated by the Federation of British Industries, the Co-operative Societies, the Association of Chambers of Commerce, and the Trade Union Congress.

No decisions are enforceable by any law of the land,

the only sanction which exists being the practice of granting unemployment benefit or extended benefit to workers in a dispute caused by a breach of agreement on the part of the owners, and withholding it where the action of the workers was in contravention to any such agreement.

### *Trade Boards*

In 1909 the Minister was empowered to set up Joint Trade Boards in such industries as are in his opinion not sufficiently organised to obtain a proper wages standard by collective bargaining. The members are nominated by the Minister, and the decisions in respect of wages are enforceable by civil and criminal proceedings. Observation of the decisions is ensured by an inspectorate maintained by the State, which institutes proceedings where these are necessary. Trade boards which have been unquestionably a success exist to-day in thirty-nine industries, and cover over 500,000 operatives. The activities of the inspectorate have clearly proved this necessity and the difficult type of firm with which they deal. Of this the ratio of employers to employed among the cases inspected in 1924 will give an indication. There were in that year about 5000 firms inspected employing about 88,000 operatives, an average of 17·6 each.

THE END





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